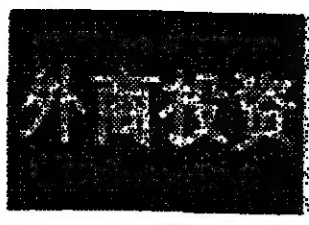

Investment in China

Money floods into a hot economy

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US military might

How a sole superpower aims to keep its edge

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New Zealand's apostle of low inflation

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Reform proves as right as rain

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FINANCIAL TIMES

Europe's Business Newspaper MONDAY JUNE 14 1993 D8523A

First woman takes office as Turkish prime minister

Former economy minister Tansu Çiller (left), a 47-year-old academic economist, is to be sworn in today as Turkey's first woman prime minister after being elected leader of the conservative True Path party. She is likely to accelerate Turkey's economic convergence with the European Community. The leadership contest was prompted by Suleyman Demirel's move to the presidency. Page 14; **PM must reforge party image, Page 5**

Bosnian hospital flattened: Serb rocket fire was reported to have destroyed a temporary hospital, killing more than 50 patients and medical staff in the Bosnian Moslem enclave of Gorazde. In Geneva mediators led by Lord Owen met Bosnian president Izetbegovic in an effort to end the slaughter. **Question mark over Nato, Page 30**

Rome raises bank powers: Italy's banks are to be allowed to take stakes in industrial companies, in a move to boost privatisation and bail out troubled private companies. Page 14; **Italy to sell off financial services group, Page 15**

Azerbaijan switch: Geidar Aliyev, former Communist party boss in Azerbaijan, was set to return to power after Isa Gambarov, quit as parliamentary chairman. Page 5

GM warns VW: General Motors of the US has warned Volkswagen of further legal action if it builds an ultra-low-cost car plant in Spain. Page 5

Supreme Court hitch: Judge Stephen Breyer of Massachusetts, a likely choice for the US Supreme Court, and his wife failed to make social security payments, an error which ended the hopes of two previous contenders for high positions in the administration. Page 14

Cambodia unrest: Cambodia's assembly, elected in UN-organised polls last month, opens today amid threats of secession from the present communist administration. Page 3

Malawi votes: Voters decide today if Malawi should remain a one-party state under life president Kamuzu Hastings Banda or if opposition parties should be allowed. Page 3

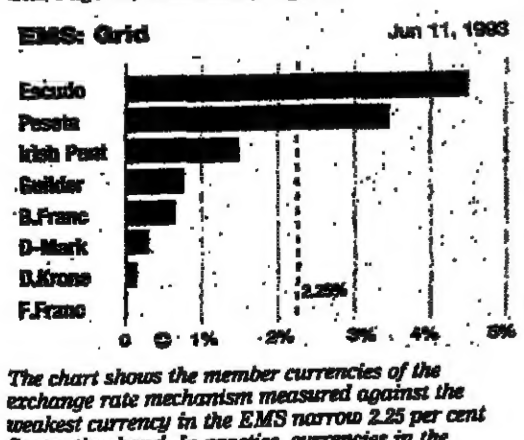
Gatt hope: US business is hoping for a breakthrough in the Gatt world trade talks next month, says Apple Computer chairman and chief executive John Sculley. Page 4

Hard line on Kuriles: Russian president Boris Yeltsin has told Japanese hosts of next month's Group of Seven summit not to expect concessions on Tokyo claims to the Kurile islands. Page 5

Portugal air crash kills four: A Portuguese air race was cancelled after a Cessna C-172 light aircraft crashed at Montargil, central Portugal, killing all four on board.

European Monetary System: The Spanish peseta has strengthened its position in the exchange rate mechanism grid following Mr Felipe González's general election victory last weekend. Bottom of the grid late last month in the run-up to its formal devaluation, the peseta starts this week second, behind the Portuguese escudo. Questions still hang over the strength of the D-Mark, which is only 0.32 percentage points above the French franc in bottom position. Some dealers believe the D-Mark could fall to the lowest place. Lex, Page 16; Currencies, Page 25

EMS: Grid Jun 11, 1993



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

Hanson, Anglo-US conglomerate, said it may retract proposals limiting the ability of shareholders to influence annual meetings. Page 16

Libyan envoy killed: Libya's ambassador to Congo Mahmoud Mohamed Saad was shot dead when he failed to stop at a checkpoint.

Egyptian plotter hanged: Sherif Hassan Ahmed, convicted by a military court last December of plotting to overthrow the Egyptian government was hanged in Alexandria.

Race criticism rebuffed: Officials at Aintree, Liverpool, rejected criticisms of the Grand National horse race in April which was abandoned after two false starts, but said starting procedures would be changed for next year's race. Page 6

Soccer: England drew 1-1 with Brazil in the US Cup in Washington.

Turmoil at EBRD over top role for Stern

Calls to postpone decision until after audit report

By Robert Peston, Banking Editor

A GROUP of directors at the European Bank for Reconstruction and Development will this week try to postpone any formal decision to appoint Mr Ernest Stern, the present number two at the World Bank, as the EBRD's new senior vice-president.

Mr Ron Freeman, the bank's first vice-president in charge of merchant banking, who told colleagues on Friday he would probably resign, yesterday decided to stay on and is likely to support the directors' campaign to postpone any decision on the bank's management reorganisation.

Some directors want to delay changes until after an audit into the bank's control of expenditure is completed on July 15. They believe it would be wrong to restructure the management until they can assess who was responsible at the bank for the overspending on its new building, the charter of private aeroplanes and other expenses reported in recent months.

The directors believe a decision to appoint Mr Stern now could make it difficult to remove Mr Jacques Attali, EBRD president, should the audit report criticise him. Mrs Anne Wibble, Sweden's finance minister, who is chairman of the EBRD's governors, last week expressed her support for a delay in the management reorganisation until after the audit report.

The issue threatens to become a serious row between the senior financial officials of the Group of Seven leading industrial countries who own 54 per cent of the banks shares, known as the G7 deputies, and the non-G7 members of the board of directors. The G7 deputies offered Mr Stern the new appointment without reference to the board of directors.

"The G7 deputies have been duplicitous," said one EBRD director, who believes they have gone behind the back of the board of directors. "I and my colleagues are appalled by their actions," said another.

The directors oppose Mr Stern's appointment for several other reasons.

They believe it will lead to a radical shift away from the bank's original philosophy of focusing on financing the fledgling private sector in eastern Europe and the former Soviet Union to a more traditional development banking strategy of investing in infrastructure. At a board meeting last Thursday, most directors made it clear to Mr Attali that they would strenuously oppose such a change.

Some directors are also angry after being told that Mr Stern has been offered an after-tax salary of £250,000, similar to Mr Attali's. Together with pension, health and other benefits, this is equivalent to a pre-tax remuneration package of about £700,000. "That would cause tremendous pressure to raise other salaries in the bank," complained one director.

Appointments of vice-presidents must be approved by the EBRD's board of directors, which meets today. A group of nine directors will make it clear this week that they will use procedural devices to prevent the appointment of Mr Stern until they have received the report by the bank's audit committee on why the bank spent £55.5m ($85m) on fitting out its headquarters and why it has been lax in control of other expenditure.

Mr Stern is understood to have accepted the offer of a position as deputy to Mr Attali. That role has, in effect, been filled by Mr Freeman, who is understood to be disappointed Mr Attali has supported Mr Stern's recruitment. A bank executive said Mr Freeman feels he has given unwavering support to Mr Attali since details of overspending and mismanagement at the bank were disclosed in April.

Somalis in Mogadishu inspect the damage caused by two US air strikes on warlord Gen Aideed's weapons stockpiles and his radio station

Pakistani UN troops kill 12 Somali demonstrators

By Leslie Crawford in Mogadishu

PAKISTANI troops serving with the United Nations operation in Somalia killed at least 12 people yesterday when they opened fire on a 4,000-strong demonstration. Supporters of Gen Mohamed Farah Aideed, the warlord whose forces the UN is attempting to disarm, were protesting peacefully in the centre of the capital Mogadishu.

The shootings followed two nights of US-led air strikes that crippled Gen Aideed's clandestine weapons stockpiles. The operation was authorised by the UN Security Council after Aideed gunmen killed 23 Pakistani Blue Helmets last weekend.

The actions of the UN forces have buried its humanitarian mission in Somalia. Mogadishu is now a city besieged by a multinational occupation army. Gen Aideed's supporters in the south of the clan-divided capital are stunned and angry.

Tanks patrol the streets. Helicopters swoop down to disperse crowds. Lorry-loads of detained men, women and children are being corralled at the grounds of the former university, now a US military centre.

UN tanks rolled by and ignored pleas for help from the many wounded in yesterday's shootings. On Saturday Pakistani troops fired into a crowd after stones were thrown. Their shots killed one Somali and wounded a woman and a man. The woman died later at Benadir hospital, where the injured were being operated on without anaesthetic on makeshift wooden tables swarming with flies.

The heavy-handedness of the Pakistani contingent has been a leading cause of rising tension and hostility against the UN in the capital. Brigadier Ikram ul-Hasan, commander of the 4,000 Pakistani peacekeeping troops in the Somali capital, told a press conference yesterday that he was investigating yesterday's incident. "The simple fact is that gunmen use women and children as human shields," he said.

The brigadier said he did not think his troops were an inflammatory presence. Nor did he think there had been a violation of the UN's rules of engagement.

Other UN military spokesmen have refused to comment. But the French relief agency Médecins sans Frontières, one of the few still operating in the capital, described the yesterday's killings as monstrous.

At the hospital, a doctor said he was sickened by the events: "The UN has started another war in Somalia. The people are tired of war. Even if they kill Aideed, there are thousands of other Aideeds out there to take his place."

The midnight bombings were undertaken with surgical precision to avoid civilian casualties. US Cobra helicopters and slow-flying aircraft picked out three armament sites and Gen Aideed's radio station during the first strike over Mogadishu on Saturday.

The bombers returned early yesterday to destroy what the UN claimed was a "veritable fortress" containing weapons, ammunition and armoured vehicles. It belonged to Mr Osman Ato, Gen Aideed's financier. The explosion lit up the night in the blacked-out city. Later, a building held by Pakistani peacekeepers came under heavy rocket attack from Gen Aideed's gunmen.

Reporters visiting the bombed site yesterday saw no evidence

Continued on Page 14

Japanese shy away from move into east Germany

By Robert Thomson in Tokyo

JAPANESE companies, expected to play an important role in reconstructing Europe, have acquired a mere three businesses in east Germany through the Treuhand, the German privatisation agency – only one more acquisition than companies from India and the same number as Singaporean companies.

The total is a disappointment for the Treuhand and an embarrassment for the Japanese government, which had suggested, at the fall of the Berlin Wall, that the country's current account surplus would be recycled in the reconstruction of the region.

Having opened a Tokyo office two years ago in expectation of interest in the estimated 13,500 German companies on the block, the Treuhand has learned valuable lessons about Japanese corporate culture and the receding Japanese enthusiasm for Europe.

The Japanese total of three acquisitions, two in the glass industry and one in car servicing, compares with the 78 east German factories acquired by UK companies and the 54 bought by US companies. Indonesian companies have made two acquisitions, only one less than the Japanese total.

"It's quite amazing, isn't it?" lamented Mr Dietrich von Stackelberg, head of the Treuhand's east Asian operations. "The timing was wrong. With the collapse of Japan's economic bubble, we have seen an increasing reluctance to invest in Europe. Their operations are contracting, not expanding."

Facing criticism over Japan's huge current account surplus, the government had argued that investment in the reconstruction of Europe would recycle the surplus, which has more than trebled over the past two years. In the same period, new Japanese direct investment in Germany has fallen 38 per cent.

Mr Nobuyuki Nagashima, assistant director for Europe at the Japan External Trade Organisation, said German unification coincided with the slowing of the Japanese economy, while companies were unfamiliar with east German companies and reluctant to risk funds.

Mr von Stackelberg is due to depart later this year, and the lack of deals means there is little reason for the Treuhand to maintain Tokyo support staff.

He suggested that the agency's experience highlighted an important difference in corporate culture between the US and

Continued on Page 14

US, Japan trade split, Page 4

Beijing predicts investment surge

By Tony Walker in Beijing

FOREIGN investors will sign contracts with Chinese partners worth some US$80bn in 1993, according to a senior trade official in Beijing.

Mr Lin Kun, deputy director of foreign investment in China's trade ministry, also said that China was planning further steps to open its markets to overseas investors and these would be unveiled at a national symposium later this year.

Hong Kong, Japan, the US, Taiwan and South Korea would spearhead the continuing investment surge into China, Mr Lin told the English-language Business Weekly. "China's market is no longer potential, it's tangible," he said.

Official figures show that China signed agreements in 1992 involving $68.5bn in foreign capital, while foreign funds actually flowing into the country last year totalled $11bn.

Mr Lin predicted that the main targets for investment this year would be the automotive sector and onshore oil exploration. This latter was a reference to the invitation to foreign companies to explore the Tarim basin prospect in China's far west, described as one of the world's last great oil frontiers.

China, facing energy and mineral shortages at home, is also conducting a wide-ranging survey of investment prospects abroad, according to Mr Zhang Hongren, vice minister of geology and mineral resources.

His ministry had launched preliminary studies of more than 20 countries in Asia, the Americas and Africa, including Australia and Brazil, said Mr Zhang.

Mr Lin said meanwhile that further steps to open China's automotive industries to foreign participation would lead to a big jump in investment.

He noted that China had approved foreign involvement in only 10 domestic automotive plants. "These plants far from meet the soaring domestic demand for automobiles."

Mr Lin did not expect the continuing depreciation of the yuan – it fell 7 per cent to Yn10.7 to the dollar last week – would deter investors.

China's investment revolution, Page 2

Austria	Sch30	Germany	DM3.30	Lux	LFr60	Qatar	QR12.00
Bahrain	Din1.250	Greece	Dr300	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr60	Hungary	Ft 172	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lw25.00	Iceland	IKr180	Neth	Fl 3.75	Slovak Rp	KSL45
Croatia	HRD5700	India	Rs40	Nigeria	Naira45	Slovenia	SLT220
Cyprus	C£1.00	Israel	Shk5.90	Norway	NKr16.00	Spain	Pta200
Czech Rp	Kcs45	Italy	L2700	Oman	OR1.50	Sweden	SKr15
Denmark	DKr15	Jordan	JD1.50	Pakistan	Rs35	Switz	SFr3.20
Egypt	E£4.50	Korea	Won 2500	Philippines	Pso45	Syria	S£50.00
Finland	FM12	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250
France	FFr9.00	Lebanon	US$1.25	Portugal	Esc215	Turkey	L7000
						UAE	Dh11.00

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FINANCIAL TIMES
COMPANIES & MARKETS
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Monday June 14 1993

INSIDE

Hanson may retract meeting rules

Hanson, the multinational conglomerate, said it may be prepared to give in to pressure from angry shareholders and retract proposals limiting their ability to influence annual general meetings, which are chaired by Lord Hanson (left). Mr Martin Taylor, deputy chairman, said it was too late to remove the proposals from the ballot for an extraordinary meeting to be held on June 25. However, he said: "When we come to review our articles next year we will see if they need to be changed." The proposals have provoked a storm of protest. Page 16

Ibos set to rival Swift

Up to five US banks are this year expected to join the Ibos cross-border payments network, operated jointly by a group of European banks. Their decision is likely to start bringing the network into competition with the Swift system that dominates EC cross-border payments. Page 17

Enron sees opportunity

The deregulation of the tightly controlled natural gas business in the US has opened up new opportunities for energy companies, none more so than for Enron, based in the oil and gas capital of the US: Houston. Non-existent 10 years ago, Enron has mushroomed to the point where it claims to be *"the nation's largest natural gas company"*. Page 17

Wall Street relaxes on inflation

Judging by the recently released May producer prices index for the US, it looks as if the inflation scare may be over. Page 18

Demand for gilts holds up

The announcement on Friday by the Bank of England that £700m ($1bn) of bonds will be on sale from today failed to puncture generally good demand for gilts from overseas investors. Page 18

Prospective p/e ratio

The latest prospective p/e ratio for the "500" index for calendar 1993 is 14.4, according to IBES, the consensus estimates service (last week: 14.4). This compares with an IBES estimated p/e for the "500" of 18.7 (18.6) for calendar 1992. The official FT calculation of the historic p/e, based on the latest reported earnings, is 19.3 (19.10).

Market Statistics

Companies in this issue

Italy to sell off financial services group

By Haig Simonian in Milan

ISTITUTO Mobiliare Italiano, the big long-term lending and financial services group controlled by the Italian treasury, is to be floated following the collapse of sale talks to a group of public-sector savings banks.

The government will sell the treasury's 50 per cent stake in IMI, and a further 9.3 per cent owned by the Ina state insurance agency. Mr Piero Barucci, the treasury minister, said he hoped a first 20 per cent tranche of IMI's shares could be floated by the year-end.

The 20 per cent stake could be worth about L1,600bn ($1bn), based on the valuation of between L7,600bn and L8,000bn for IMI made by SG Warburg, the UK merchant bank. Warburg and IMI itself have now been given the mandate by the treasury to prepare the way for flotation.

IMI is one of Italy's biggest financial institutions, specialising in long-term corporate lending. It also has a big securities trading capability, and has in recent years branched out into insurance and retail banking.

The failure of the sale talks means the government now has three big banks on its disposal list. Last year, it announced plans to privatise Credito Italiano, Italy's sixth-biggest bank, while Banca Commerciale Italiana, another prestigious financial institution also based in Milan, is due to be sold.

The change in strategy over IMI came after the breakdown of talks with a group of savings banks, led by Milan's Cariplo, over the issue of price. In a terse statement, the government said the banks' offer was "inadequate both as far as the price and the means of payment is concerned".

While some analysts greeted the decision to float IMI as a boost for "transparency," it represents a severe setback to both the treasury and Cariplo.

The government had been hoping to raise about L3,800bn from the transaction. IMI, which had group net profits of L443bn and a loan book of about L51,000bn in 1992, is one of the most attractive assets on the government's privatisation list.

Purchasing IMI would have given Cariplo, always the leading force among potential purchasers, a boost. Although it is strong in retail banking and deposit-taking, Cariplo's presence in investment banking and securities trading is weaker, especially abroad.

Paul Betts explains a change of culture at the UK's biggest export manufacturer

BAe benefits as it brings its head out of the clouds

MR JOHN CAHILL flew in last week to his first Paris Air Show as chairman of British Aerospace on a regular British Airways flight.

"I'm a small businessman and I simply cannot justify coming here on a private BAe 125 jet at a cost of £6,000 an hour," he said, watching the noisy flight displays from BAe's entertainment chalet at the world's biggest air show.

Since he was brought in to lead the UK's biggest export manufacturer a year ago, Mr Cahill has sought to instil the same sort of "hair shirt" mentality that prevailed in his old company, the BTR industrial conglomerate.

Although the company is by no means out of the woods, and has been buffeted like the rest of the industry by recession in the civil aircraft market and contraction in the defence business, it had more to celebrate in Paris than most aerospace companies.

It was one of the few to announce a big order: for Hawk trainer-light attack aircraft worth £500m ($770m) from Indonesia. Its shares climbed over the 380p mark for the first time since its ill-fated rights issue 18 months ago, which provoked a savage boardroom battle, the resignation of the chairman, Professor Sir Roland Smith, and ultimately the arrival of Mr Cahill.

The company also returned in the FT-SE 100 index after a nine-month absence. Last September, BAe's shares hit a low of 107p. On Friday, they closed at 410p. This sharp rise is making Mr Cahill a little nervous. "It's getting too hot now: I'd hoped the share price wouldn't go through 400 so quickly," he said.

For Mr Cahill the reason the company is returning to favour in the City is simple. "We simply had to establish credibility: we had to tell the world what we were doing and then deliver the goods."

The strategy itself has not changed. What has changed, according to Mr Dick Evans, BAe's chief executive, is the internal chemistry. "No one guy can lead a company of this size which is very diverse and has a big political element because governments are our customers. But to be successful we had to have a team of people who were able to work together," he explained, adding that this had not been the case under Sir Roland.

But Mr Cahill has quietly brought a change of attitude and culture in the company. From the beginning, he sought to introduce at BAe the same concept of open management, accountability, transparency and tight cost controls that BTR adopted.

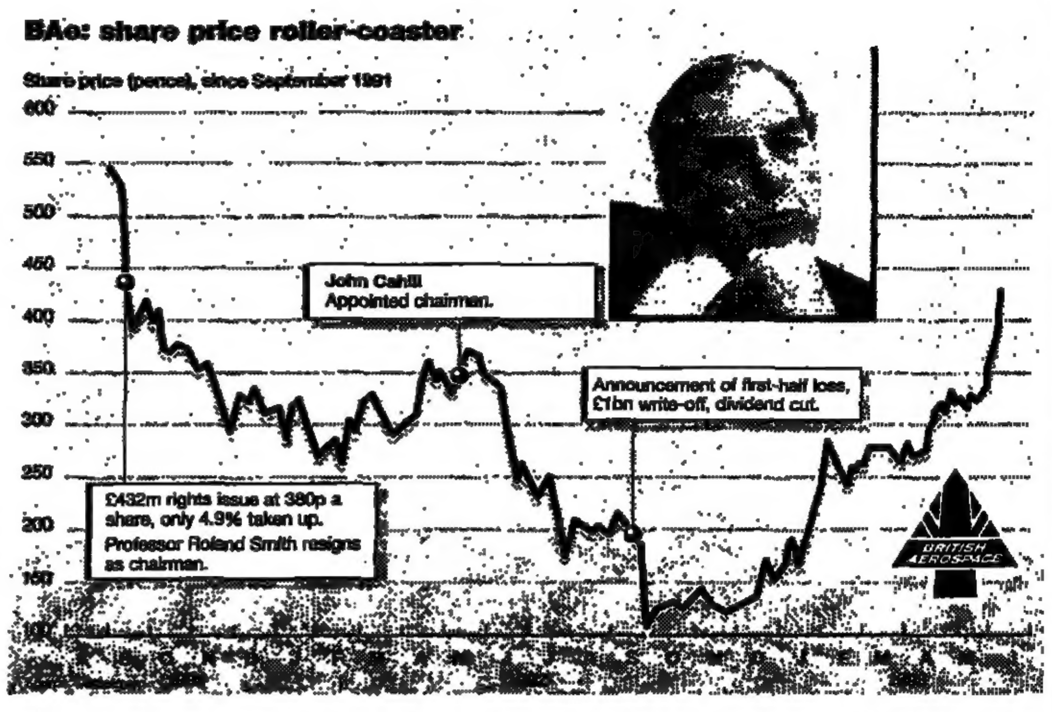
In the early 1960s, Mr Cahill recalled, BTR had a bad habit of always predicting more than it could achieve. The result was that the company lost money twice in three years. "We then sat down and said: we must be predictable, reliable, an open book. BAe for many years was a very private company and we have to show that we have nothing to hide," he said.

BAe's basic strategy is "to support and protect" its main defence business, he emphasised. To do this, the company, which has been cash negative in the last few years, had to become cash positive again.

"Cash is our mission. Our plan is to get overheads down, turn inventories back into cash and sell off non core assets," he explained. Three significant developments have recently helped revive confidence in the company's £5bn a year defence business: the UK government's commitment to the European Fighter Aircraft; Saudi Arabia's intention to go ahead with a new order for an additional 48 Tornado combat aircraft; and the negotiations to merge BAe's guided missiles activities into a joint company with those of the French Matra group.

In the commercial aircraft sector, BAe is focusing on its 20 per cent stake in the European Airbus airliner programme. After establishing a joint venture company with Taiwan Aerospace for its loss-making regional jet business, the company is now seeking a similar partnership with other international manufacturers for its Jetstream and ATP turbopropeller regional aircraft activities which have been regrouped at Prestwick in Scotland.

And two weeks ago, it sold for £250m its BAe 125 executive jet business to Raytheon of the US.



The decision helped the City of London realise the true worth of the company, Mr Cahill said. "The corporate jet business with £300m a year turnover and £25m pre-tax profits represented only 3 per cent of our total sales. We sold it for more than a quarter of our market capitalisation."

In any case, the trend in the hard-pressed commercial aircraft sector as well as in the military was towards ever-increasing consolidation and collaboration. "We have to rationalise and we won't be building aeroplanes on our own any more," Mr Cahill said.

"It is almost inevitable that in the US there will be two military aircraft and one large commercial aeroplane manufacturer, against just the possibility of one of each in Europe," Mr Evans forecast.

In the longer term, a similar consolidation is likely to take place in the car business, according to Mr Cahill. At present Rover remained an important component of his group. "The objective is to get Rover into profit and we hope to see Rover moving into profit this year," he said.

But what will eventually happen to the car group? "Who knows?" said Mr Cahill. "At the moment we have no plans, but I could see the car industry concentrated one day into six companies: two in the US, two in Japan, two in Europe – and one will not be called Rover."

Although he believes the company has now found some badly-needed stability, Mr Evans warned that the process of restructuring was by no means over.

"We are now finally getting the organisation up and running again. But closures and redundancies have also created a lot of uncertainties and has made the job even more complex," conceded Mr Evans. Over the last three years, BAe has shed about 45,000 jobs. "And the process is not over," warned Mr Evans.

But for a short moment at least, BAe and its "wise old sage of a chairman who has seen it all before", as Mr Evans described him, are having a party in Paris.

Telephone broker plans UK flotation

By Roland Rudd in London

SHARELINK Investment Services, the telephone-based UK stockbroker, is to float at the end of next month. The group is expected to be valued at more than £30m ($46m).

Around £5m of new money is to be raised which will be invested in new services.

Sharelink, which currently specialises in equities and traded options, is looking at expanding into insurance and banking.

Mr David Jones, chief executive, said: "The retail financial services market is full of opportunities; after pioneering the use of the telephone in selling shares we are now looking at moving into other areas."

He confirmed that this includes the rapidly growing telephone insurance business.

Direct Line, the company owned by the Royal Bank of Scotland which specialises in telephone insurance, recently trebled first-half profits to £15m.

Sharelink's two biggest shareholders, Foreign & Colonial Ventures and the British Coal pension fund, both of which have a 32 per cent stake, are expected to sell around half their shareholding.

Mr Jones, who started the business in 1987, is expected to sell 25 per cent of his 20 per cent holding making him a millionaire just six years after he invested £4,000 in the business.

He increased his shareholding after a management buyout from the original institutional backers, BT and Albert E Sharp, the Birmingham-based stockbroker.

The company's other shareholders are the employees with 10 per cent and Eagle Trust with 6 per cent.

Pre-tax profits for the year to March 31, 1993 have jumped from £1m to £3.5m on sales of £14m. The company is based in Birmingham with more than 300 employees.

In the past it has thrived on privatisations but during the last year it has mainly concentrated on equities.

A number of new issues have been brought forward before the government sale of its remaining 21.9 per cent stake in BT which is to take place in the middle of July.

However, Mr Jones believes the BT sale will not affect his float.

"There is plenty of money in the new issue markets," he said.

A test for the public services in poorer countries

Economics Notebook

By Stefan Wagstyl in New Delhi

THE residents of Delhi and much of northern India were looking for scapegoats after power cuts which this week left them sweltering for many hours without lights, fans, coolers or air-conditioners.

The immediate cause of their distress was a surge in demand for electricity which overwhelmed the generation and transmission network.

That India, like many developing countries, does not produce enough electricity is well known.

India's Ministry of Power estimates that in the year to the end of March the shortages amounted to around 9 per cent of the country's total needs and 18 per cent of its peak requirement.

In the past, the standard response to power shortages in developing countries has been to build more power stations. In the late 1980s, India was building an annual average of 4,000 megawatts (MW) of generating capacity a year – the equivalent of four large power stations. By March 1992, total capacity in the public sector (which accounts for the vast majority of power) stood at 69,000MW.

However, in the 1990s, capital has been much harder to find. The public sector construction programme has almost ground to a halt and India is seeking private investors, including foreign companies, to take up the slack. Even if this initiative brings results, private companies will not contribute to a significant increase in power supplies until the late 1990s, given the long lead-times in making such large investments.

This gloomy prospect has forced the Indian authorities to concentrate upon doing something that should have been done a long time ago – making better use of existing plant. Indian power stations typically run below 60 per cent cent capacity. Also, 23 per cent of the power generated is lost in transmission – through theft or faulty equipment. While the efficiency of stations has improved in the past decade, transmission losses have actually increased.

Acknowledging the scale of the problem, the World Bank, the principal supplier of low-interest loans for power schemes in developing countries, has slowed new credits for new power stations and is lending India $350m to fund improvements in the existing network.

The shortcomings in the Indian power supply industry highlight a general problem afflicting developing countries. A lot of time and money is lavished on new capital investments and not enough on maintaining the efficiency of existing capital, particularly in the public sector. What is true for power stations is often also true for roads and railways, pipes and sewers, and public buildings.

One reason for this misallocation of resources is political: politicians, who have the last word in spending decisions, prefer to put their names to new schemes than to renovating the projects of their predecessors. Such temptations are not unique to developing nations: the problem is to increase incentives for the good management of existing resources.

Many countries have opted for privatisation – private owners are much more likely than the state to ensure that capital is exploited to its full potential.

But in some countries, including India, full-scale privatisation is, at best, a distant prospect. Aside from the reluctance of politicians and officials to surrender administrative power, there are very real concerns about the regulation of private companies entrusted with essential services. For example, privatising the water supply in a drought-prone country such as India would be politically impossible.

The only alternative is to cajole public sector managers to become more efficient. The government can try to apply pressure, but frequently politicians' priorities will not always square with the goals of efficient management. In India, much electricity is stolen by residents of illegal slums, who attach wires to overhead cables. Since slum-dwellers have votes there is little political incentive to deprive them of free power.

The World Bank and other aid donors try to improve the running of public services by directing funds towards operations which are well managed, at the expense of those which are not. But there is a limit to which outside agencies can become involved in such detailed choices without being accused of bullying and interfering with national sovereignty. Also, the worst-managed units are often in poor regions, precisely those which most need foreign aid. In India, the most efficient power stations were those in the state of Maharashtra, including wealthy Bombay, which ran at 58 per cent capacity. Those in deprived West Bengal managed only 28 per cent.

Another way for foreign donors to influence change might be to supply more information to consumers in India and other developing countries. The means might be to prepare league tables comparing the efficiency of the service delivery in different states. The World Bank and other international agencies already do this for many criteria, notably GNP and GNP per capita, and for the production totals of individual industries, including electricity generation.

The emphasis in such data is on volume. It would be possible to supplement the figures with statistics which measure the quality of what is produced. As far as public services are concerned, the electricity industry is a suitable starting point because production is concentrated in relatively few units, so collecting information may not be too difficult.

Capacity utilisation and transmission losses might be appropriate indicators. Other possibilities include capacity use in the water industry, average delays on railway journeys, flight cancellations by domestic airlines and the number of attempted telephone calls made for one successful connection.

Such figures would be of more than academic interest. Properly packaged they would be a valuable tool both for the officials who run public services and for consumers.

The popularity of such inter-country comparisons is amply demonstrated by the success of the United Nations Development Programme's annual report on human development which is in its fourth year and sells 100,000 copies.

Institutions interested in UK property investments

By Norma Cohen, Investments Correspondent

BRITISH institutional investors are showing more interest in domestic property investment than at any time in the last three years, according to a new survey.

The Smith New Court/Gallup Survey of Fund Managers for June showed that 22 per cent of those surveyed planned to increase their holdings of UK property, the highest level since the survey began in July 1990. Last month, 12 per cent said they intended to make UK property investments and in February, none was prepared to make such a move.

The survey, conducted on June 7th and 8th, covered 95 institutions with £661bn ($1bn) under management.

A balance of 6 per cent of managers planned to increase their holdings of UK equities, down from 18 per cent in May and the lowest level for planned investment in British shares this year.

In other asset categories, fund managers were less enthusiastic about foreign equities than a month ago, with a balance of only 6 per cent planning to increase European exposures, 9 per cent raising Japanese weightings and 24 per cent increasing investments in other areas. In May, the weightings were 13, 24 and 28 per cent respectively.

There has been an increase in the popularity of index-linked gilts since March. In the June poll, a balance of 8 per cent planned to raise investments in that sector, up from 1 per cent in March.

Emigrant entrepreneurs seize new opportunities back home

By Kieran Cooke in Kuala Lumpur

IN September 1893 the imperial authorities in China issued an edict encouraging successful Chinese emigrants to invest in their homeland. The edict proclaimed that the overseas Chinese would in future be welcomed back to China – a reversal of previous policy which had not recognised those who had left China's shores.

Now, 100 years on, China is once again wooing the overseas Chinese to participate in developments at home. And the Chinese diaspora, many of whom are removed from China by several generations, are responding.

While investment in China by US, Japanese and EC interests has been increasing substantially, it is the financial resources of the overseas Chinese which are now beginning to transform many parts of China.

Just how much of China's foreign investment is accounted for by overseas Chinese is hard to gauge. But its influence is plain to see.

Guangdong province in the south has been transformed by capital flowing in from nearby Hong Kong. Businessmen from Taipei are overrunning Fujian, the mainland province just across the water from Taiwan. The vast resources of the overseas Shanghainese – some of them the entrepreneurs primarily responsible for the emergence of Hong Kong in the 1950s and 1960s – are now returning home.

Traditionally the overseas Chinese have always been great savers. Taiwan, with 21m people, has foreign exchange reserves of nearly $90bn. Singapore, three quarters of whose 2.8m people are Chinese, has reserves of more than $40bn.

The Chinese dominate the economies of south-east Asian countries. In Indonesia, Thailand, Malaysia and the Philippines it is the Chinese – though often only a small minority – who control trade and run the biggest companies.

Mr Liem Sioe Liong, an Indonesian Chinese, runs the Salim group, believed to be the biggest in the region with an estimated annual turnover of $8bn.

Mr Liem, who left China as a penniless teenager, is now investing millions in China, much of it in property in areas round his birthplace in Fujian province.

Mr Robert Kuok, a Malaysian Chinese, has a business empire mainly involved in commodities and hotels. Mr Kuok is investing in building hotels and commodity processing facilities in various parts of China.

Chinese businesses are traditionally family-run, secretive enterprises. A web of Chinese family concerns stretches throughout east Asia and, increasingly, into China.

For the most part the overseas Chinese avoid China's cumbersome bureaucracy: in many cases they strike informal deals with local groups, often based on family connections.

For some there is a strong emotional attachment to the homeland. But most investments are made for hard-headed commercial reasons. They, like so many others, are intent on making the most of the opportunities available in such a vast market.

Lure of the billion-buyer market

With 1.1bn people, the world's biggest consumer market is eyed increasingly seriously. Foreign investment doubled last year and is projected to surge again this year. FT writers report

By Tony Walker in Beijing

MR YE DISHENG, the lively vice-mayor of Tianjin and the man in charge of attracting foreign investment to the north-east industrial city, had no reservations about his mission in life.

Asked if he was concerned about problems of economic overheating, Mr Ye observed: "It's not nearly hot enough in Tianjin. We want more heat."

While his words may cause a shudder among Beijing bureaucrats charged with restraining China's runaway economy, they also neatly reflect sentiments among Chinese provincial officials who see a rapid inflow of foreign investment as bringing jobs, raising living standards and overcoming acute infrastructural problems.

Mr Ye and his colleagues in China's coastal regions and in a handful of inland industrial centres could hardly complain about new investment contracted in 1992, which reached astonishing heights and confirmed China as the main destination for new funds in the world's fastest growing region – and as the recipient last year of about one quarter of funds invested in developing countries worldwide.

According to official statistics, China signed agreements in 1992 involving $68.5bn in foreign capital, two and a half times that for 1991. Foreign funds actually flowing into China last year totalled $11bn, more than double the year before, and the surge is continuing.

Figures this month from the Ministry of Foreign Trade and Economic Relations (Moftec) showed that in the first quarter 17,500 projects involving foreign capital – and worth nearly $25bn – were approved, up 320 per cent on 1992.

Western economists urge caution in assessing Chinese statistics, which are invariably accompanied by highly optimistic official interpretation. For a start, China often builds into the investment figures equity from the Chinese side, thus giving an exaggerated impression of the size of the capital inflow.

Also, some investment is of Chinese origin but has been routed through offshore entities to take advantage of tax breaks.

Many so-called agreements are also little more than memorandums of understanding that stand little chance of yielding projects on the ground. An allied problem has been Chinese sluggishness in absorbing investment due to bureaucratic blockages, infrastructure deficiencies and cultural and political hesitancy. Between 1978, the first year of the economic "open door" policy, and 1991 China signed contracts worth $48bn, of which less than half was actually invested.

But circumstances are changing, not only in go-go Guangdong province in the south, but also in other cities such as Shanghai, Tianjin and now even staid, bureaucratic Beijing, all of which have joined the scramble for investment funds. It is perhaps hard to believe that one man could have such an effect in a country of 1.1bn people, but there is no doubt that a visit to southern China early last year by Mr Deng Xiaoping, the country's supreme leader, in which he urged swifter growth, employing the simple slogan "Do it faster", has galvanised a nation.

The "emperor" spoke and officials rushed to do his bidding, culminating in a frenzy of activity in the last quarter of 1992 in which more than $30bn of contracts were signed, equivalent to figures for the rest of an extraordinary year.

Among the more amazing statistics regarding foreign investment to have emerged from China's ever-grinding sta-

A bout of 'China fever' is sweeping through world business

tistical mill recently were those revealing that in 1992 alone 47,000 joint ventures, co-operative enterprises, and wholly owned foreign ventures were established, exceeding the total number of the previous 14 years.

In all, 100,000 enterprises with foreign involvement were registered by the end of the first quarter this year, most of them small businesses such as restaurants and hairdressing salons employing a handful of people each. Hong Kong and Macao investors are behind the bulk of these smaller businesses.

But an emerging trend involves increased Japanese, Taiwanese, US, and South Korean investment in larger-scale projects. Japanese companies, which had proved reluctant in the 1980s to become involved in China, are now beginning to make more substantial investments. Taiwanese and South Korean groups, both late starters, are following suit.

By the end of 1992, Taiwanese businesses had signed contracts valued at $8.5bn. Companies from South Korea, which formalised relations with China last August, had initialled agreements worth $616m, and much more is in the pipeline.

"More large projects, whose average total investment stands at over scores of millions of US dollars were set up in the first three months," Mr Yang Xiaogong, a spokesman for Moftec was quoted as saying this week by the official China Daily.

Of the actual direct – as opposed to simply contractual – investment recorded by Moftec of about $37bn to the end of 1992, Hong Kong and Macao head the table with a little more than 50 per cent, or an investment of $21.2bn, followed by Japan with $3.9bn, the US on $3.2bn, Taiwan $1.9bn and Germany $471m, to name the top five.

Big increases in contracted investment were also recorded by Singapore and Thailand, a reflection of the growing involvement in China of wealthy overseas Chinese in those countries. Interestingly, investment is also beginning to trickle into China from Russia, eastern Europe and the Middle East.

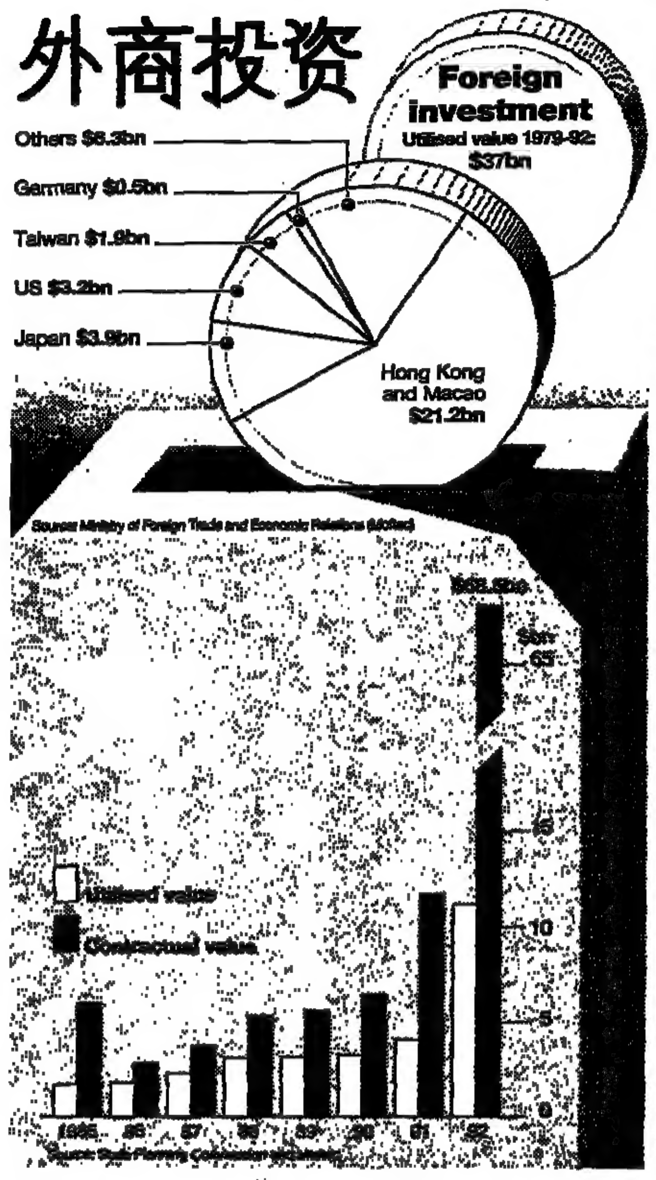
Among factors fuelling the investment surge, apart from a bout of "China fever" that appears to be sweeping the international business community, is the relaxation of restrictions on investment in real estate. Overseas Chinese-controlled companies, especially those based in Hong Kong, have been pouring funds into real estate projects in the hope of capitalising on huge projected demand for commercial and residential property.

In Shanghai, for example, the Municipal Investment Commission approved 750 new projects in the first three months of this year worth about $1.8bn. About half this new investment will be channelled into property.

Local investors have also plunged into property development throughout China, especially in the southern regions like Guangdong and Fujian, in the expectation of riding a speculative wave; some of these local property developers may be in for a shock with the government squeezing credit to try to calm an overheated economy.

Another factor driving the investment surge is China's embrace of build-operate-transfer infrastructure projects such as those in the power sector. Hong Kong investors such as Mr Gordon Wu of Hopewell Holdings have been active in this area, no doubt encouraged by the bounty earned by early investors in Hong Kong utilities such as China Light and Power.

The explosion of activity has contributed to an atmosphere in China somewhat akin to that of a gold rush, with businessmen and their overseas Chinese agents pouring in from all over the world, negotiating deals and signing contracts with apparent abandon.



Deng Xiaoping, China's supreme leader, urged swifter growth under the slogan "Do it faster." Officials rushed to do his bidding in a frenzy of activity.

Germany's AEG sets its sights on vast railways potential

By Christopher Parkes in Frankfurt

THERE are about 30 cities in China with more than 1m inhabitants; several forming the focus of conurbations which are home to up to 15m people. Only two and a bit – Beijing, Tianjin and Shanghai – have an underground railway.

Mr Klaus Oertel, the board member responsible for AEG's fast-growing rail systems division, does not even attempt a guess at the sales potential. He focuses instead on the steady devolution of centralised decision-making powers to regional and city authorities which is slowly opening China's infrastructure market to outside expertise and investment.

Four years after leading a German consortium into the fledgling Shanghai metro network with a DM350m ($218m) start-up order for 96 underground carriages, power supply, overhead line and telecommunications equipment, the Daimler-Benz subsidiary is on the verge of making its first direct investment in Chinese railways.

This month, during the opening of the first stretch of Metro Shanghai, Mr Oertel signed a letter of intent to take a majority stake in a joint venture to make trains in China with the Shanghai Crane and Conveyor Works. With a stake of less than DM10m, and planned start-up capacity of one carriage a week, the deal is a tiny step along what may prove to be a permanent way leading to an infrastructural Eldorado.

Like most German companies, AEG has been relatively slow and cautious in its entry into China. But Mr Oertel disputes claims from the likes of Mr Hans-Joachim von Ludwig, a director of Alcatel SEL, a Franco-German telecommunications consortium, that Germany "seems to have lost track of the opportunities".

According to Mr von Ludwig, only 3 per cent of all German foreign direct investment last year was made in Asia, compared with Japan's 38 per cent.

Mr Oertel accepts that Germany, occupied with a European and domestic boom for most of the 1980s, was late to join the "travelling circus" search for low-wage manufacturing bases.

But AEG is now more concerned with the future. So far Shanghai has opened only one 14km stretch of metro track in a planned network of 180km which, Mr Oertel says, will require about 1,000 carriages over 15 to 20 years. Meanwhile, the company is discussing a further joint venture with Changchun Railcar Works, the country's biggest rolling stock maker, and is in talks at central government level in Beijing on the prospects of deals in the locomotive industry.

AEG's plans, set up in-house by a group led by chairman Mr Georg Stöckl, are part of a grand group design, overseen in Daimler's Stuttgart headquarters.

In a surge of activity, focused on what one Daimler official calls a "state" visit by Mr Gerhard Liener, the finance director, Daimler group companies have this year already signed or finished negotiating more than half a dozen projects in China. Mr Liener recently capped the package with an announcement that Germany's biggest industrial concern will grace Shanghai's infant stock exchange by listing its shares there. This move, of more political than commercial importance, followed a flurry of successful diplomatic efforts by the Bonn government to further German interests in China.

AEG's Mr Oertel, too, has his own diplomatic contacts. Mr Zhu Rongji, a former mayor of Shanghai, was instrumental in the 1989 deal under which AEG and consortium partners Siemens and ABB won the main contracts for the first stretch of the city's underground. Mr Zhu is now a first vice premier of the state council in Beijing.

But according to Mr Oertel, the main factor qualifying AEG to win Chinese contracts is the quality and depth of its expertise in local rail transport.

Another crucial element is the size and resources of its supporting parent. While Mr Oertel says he is not at all concerned about the possibility of damaging political upheaval in China, he acknowledges the risks inherent in investing in fast growing and febrile economies. "Anyone going into a developing market must be clear that while in the long run everything will work out, in the short-term someone has to pay the water bills."

Further articles on foreign investment in China will appear shortly on the World Trade News page. They will examine the involvement of companies from Hong Kong, Japan and Singapore and will profile the long-established Beijing Jeep plant owned by Chrysler.

Careful planning key to rewarding ventures

By Alexander Nicoll, Asia Editor

CHINA'S remarkable progress may tempt unwary foreigners to believe they can simply invest in a joint venture, sit back and wait for the profits to roll in.

Not so. Joint ventures require enormous preparation and constant attention. The Chinese economy has moved some way towards the market, but businesses still need the right contacts to ensure success. Problems need to be worked out through persistent negotiation.

Businessmen and lawyers with experience of China say that the rewards are there, but they have to be earned. They offer these suggestions:

- Identify what you want out of a joint venture, and try to anticipate what a potential partner would want. You may have an eye on the domestic market, but a Chinese company may be looking to export. Mr John Beyer, director of the China-Britain Trade Group, says: "Quite a lot of joint ventures have fallen by the wayside because the two sides have not identified overlapping aims."
- Find the right partner, whose most important qualification will be good connections in relevant city, provincial and state bodies.
  Mr Robbie Robertson, director of strategic relations for GPT, which has a successful joint venture making PABX telephone systems in Shanghai, says: "If a venture is not with the right people, it will not succeed." A partner provides access to a skill and labour base, as well as the local clout to ensure that a venture receives materials for which state or municipal authorities remain responsible.
- Pick the right location. Though investment has poured into special economic zones where set-up costs may be lower, the quality of infrastructure, particularly for transport, will be more important in the longer run.
- Get a good contract including a reasonable amount of detail. Mr Stuart Valentine, a solicitor at Clifford Chance in Hong Kong, says this is important even though Chinese and western views of a contract may differ. The Chinese are likely to treat it as a framework for discussion in the event of problems. "You can't bang the table and say 'this is what the contract says'," Mr Valentine says.
- Resolve problems through negotiation. There is little point in pursuing a claim through courts in China, and lawyers say they know of no case in which a judgment in a foreign court or arbitration tribunal has been enforced in China.
- Use expert advice and the experience of others. For British businesses, the China-Britain Trade Group runs seminars and plans a "mobile workshop" in China in the autumn as part of an investment mission.

Many chins make light work of razor sales targets

By Nikki Tait in New York

FOR Gillette, the Boston-based razor manufacturer, China has switched from being a possibility to a reality in three years.

The groundwork was laid in the early 1980s. The US company entered mainland China ten years ago, via a small 50:50 joint venture, called Shenmei Daily Use Products. This operation was negotiated with the Chinese authorities in Liaoning province, to the north-east of Beijing.

It comprised an existing plant in Shenyang, which – with expertise from its US partner – has produced double-edge blades and razors under the Rhino brand name for a decade.

Gillette says the venture has been consistently profitable, and "sells everything we can make". But it remains small: annual production is around 60m units, in a market which absorbs 1bn units a year.

Mr Gaston Levy, head of Gillette's international group, says the northern location is not ideal. "It became a regional issue, but, as a pilot project, Shenmei did allow us to understand the Chinese mentality."

So, in about 1988, Gillette began to look at central and southern regions. The crushing of the pro-democracy movement in Tiananmen Square in 1989 caused the group to put plans on hold, but then it began talking to the authorities about setting up a joint venture with China's leading blade manufacturer in Shanghai.

Negotiations, spanning layers of officialdom, took two years. Mr Levy remembers that his counterparts insisted on talking only after dinner. Typically, the Chinese would then retire, to discuss their bargaining position, in the early hours. When they returned, the US side would also politely bow, hold its own caucus, and respond. By three or four o'clock, a negotiating point might be resolved. This laborious process was, he thinks, an indication of the Chinese distrust of foreigners: "They're very, very careful – caution is much greater than anywhere else in the world."

But, last August, Gillette had a deal. A joint venture with the Shanghai Razor Blade Factory was agreed, setting up a new company called Gillette Shanghai. Gillette obtained a 70 per cent share in the business and management control, while the Chinese retained 30 per cent. All of Shanghai's plant was taken over by the new company, and the joint venture agreement called for "first phase" capital investment of $60m. Gillette would find $45m.

Today, about two-thirds of this money has been invested and the operation employs more than 1,000 people. Gillette, meanwhile, has seven expatriates – some of Chinese origin – working there. The business, says Mr Levy, is profitable.

The deal took Gillette's share of the domestic blade market from about 10 per cent to over 70 per cent. Mr Levy admits that China is not the most compelling of markets in terms of "shaving usage". The former Soviet republics, for example, have a much higher "shaving frequency" and associated blade demand.

But China's appeal is partly its sheer size – a population of 1.1bn means a lot of blade sales, even if shaving is not ubiquitous – and partly the potential it offers for pushing more advanced products.

At present, basic blades sell for the equivalent of three US cents. By nudging consumers towards more sophisticated shaving products, Gillette sees scope for initially doubling this, and eventually raising it five or six-fold. Already, the Shanghai plant is being geared up for production of disposable razors.

Mr Levy does not make light of the problems. Language is an obvious one, causing the US company to station interpreters on site. Marketing is another. The joint venture is required to supply the Chinese government with a minimum number of blades for export, but can then sell its remaining output as it wishes. The operation had previously depended on the government purchasing network, but Gillette is trying to develop its own wholesale distribution system. Outside of the Shanghai area, says Mr Levy, this is still a tough task.

The much-feared overheating of the Chinese economy is a background concern. "Inflation would worry us," says Mr Levy, noting that it has reached double-digit figures in some areas.

Against these negative factors, there is the relative flexibility which the Chinese system offers, and the deep-rooted commercialism of its people. Gillette is free to remit profits if it wishes, and to choose how products are marketed and sold. Meanwhile, the much-vaunted "trading mentality", in Mr Levy's eyes, differentiates China hugely from parts of eastern Europe.

Certainly, Gillette's commitment to China seems to be increasing. The company is now edging into the toothbrush business.

Last month it set up a small joint venture plant in Shanghai, employing under 100 people and producing Oral-B toothbrushes – both for sale in the Chinese domestic market and for export. Again, China does not look the most promising of markets: there is reckoned to be one dentist for every 77,000 people, and the "average" Chinese buys one toothbrush every four years. But the market is huge, and the government is anxious to improve healthcare. Demand for better-quality dental products, Gillette argues, can only increase.

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Chinese peasants riot over tax rises

By Tony Walker in Beijing

GROWING dissatisfaction among China's 800m peasants has spilled over into persistent and angry clashes with officials, including riots in Sichuan, the country's most populous province.

Provincial officials confirmed that crowds of peasants had earlier this month besieged government headquarters in Renshou county, 80km south of Chengdu, the provincial capital, to protest over increases in taxes and charges to fund a local highway.

Peasants are reported to have rampaged around the town, blocking traffic, assaulting officials and attacking vehicles. The disturbances took place between June 3 and 6.

Police used teargas to break up angry mobs whose numbers are said to have ranged between a few hundred and as many as 10,000. A provincial government official in Chengdu confirmed that a riot had taken place, but he was reluctant to go into detail.

Western officials, who visited Renshou in the past few days, said they had noted evidence of trouble, including slogans daubed on walls denouncing local officials, but felt reports of mass disturbances were exaggerated.

The troubles in Sichuan are *by no means an isolated incident*, however. They demonstrate widespread dissatisfaction among China's peasant farmers who are being left behind in the country's economic boom as the gap widens between city and country.

Official statistics show that average per capita peasant annual income stands at Yn770 (£90) . This represents less than half the average of urban dwellers.

Stories abound of clashes between mutinous peasants and the authorities. Among recent episodes are disruptions caused to rail traffic in central Henan province after a dispute over requisition land for rail crossings and protests in southern Guangdong province over compensation for land seized by the state.

Hard-pressed peasants have also been assailing tax collectors, sometimes violently. The new militancy among peasants, dismayed at their inability to share the fruits of China's economic boom, may well prove the government's most serious challenge in years.

China's leaders have, belatedly, recognised the dangers. Mr Qiao Shi, a member of the politburo's ruling seven-member standing committee, recently visited Sichuan to urge better treatment of peasants by local officials, who are being blamed for corruption and for extorting excessive charges and levies.

China's official media has *been full of exhortations to* officials to be more sensitive to the plight of the peasants. The central authorities have been releasing funds to redeem IOUs to farmers for grain acquired compulsorily by the state. Failure to honor these commitments has proved a principal cause of unrest.

The Public Security Ministry has also issued an order to police to stop harassing peasants and imposing arbitrary fines.

Cambodia losers go back on their word

The ruling communists have refused to accept election results, writes Victor Mallet

IF the United Nations fails in its $2bn mission to bring peace and democracy to Cambodia, much of the blame will be laid at the door of the Cambodian politicians who did the opposite of what they said they were going to.

The opening in Phnom Penh today of the Cambodian assembly, elected in UN-organised polls last month and charged with creating a new constitution and forming a government, is overshadowed by continuing violence and threats of secession from the existing communist administration.

"We consider ourselves sports," Mr Hun Sen, the prime minister, had said before the election. "We are prepared to transfer everything to the winner."

But when his Cambodian People's party (CPP) won only 51 seats in the 120-member assembly, against 58 for the royalist opposition party Funcinpec, he changed his tune, claiming "massive irregularities" in the election and refusing to recognise the results or hand over power.

Over the weekend the CPP has condoned the formation of an "autonomous zone" of seven eastern provinces. CPP-organised demonstrators have threatened UN workers and Funcinpec officials and forced the UN and Funcinpec to evacuate their civilian staff from several provincial towns.

The secessionist movement, designed to press the UN and Funcinpec into meeting CPP demands, is led by senior CPP officials and has been greeted with little enthusiasm by the public.

Other factions have also performed political somersaults in response to Funcinpec's success.

The extreme left-wing Khmer Rouge, which withdrew from the peace process and attacked the election as a "cheating and dirty" means of legitimising the Vietnamese-installed CPP government, is now loftily demanding in the name of democracy that the CPP yield to Funcinpec – once a Khmer Rouge ally.

Funcinpec itself, having promised to hand executive power to the erratic elder statesman Prince Norodom Sihanouk if he won the election, was appalled when he seized the initiative and attempted to form an interim government that gave the CPP equal weight with Funcinpec.

Prince Ranariddh, Funcinpec leader and son of Prince Sihanouk, yesterday condemned the CPP secessionists as "renegades", demanded that the CPP recognise the election results and raised the spectre of a renewed outbreak of civil war.

"We are ready to set up our own forces to fight and liberate that part of Cambodia, and I hope we will be supported by the world community," he said. "We do have arms, weapons caches in those provinces."

In fact Funcinpec is almost finished as a military force, and Prince Ranariddh's other threat is likely to carry more weight. "I will travel around the world," he said, "to explain the real situation of Cambodia and ask them to clearly condemn the CPP and to freeze any aid and any support to those who are acting against the will of the Cambodian people."

Despite the animosity between the two largest parties in the assembly, the western and Asian backers of the 1991 Cambodian peace plan believe that stability will be best served by a Funcinpec-CPP coalition, if only because the CPP has the only credible Cambodian military force apart from the Khmer Rouge guerrillas.

CPP support will also be needed for the passing of a new constitution in the assembly by a two thirds majority. UN officials and western diplomats are hoping that at least some CPP leaders, particularly in the armed forces, will refuse to risk further international isolation by defying the UN.

Cambodia and its communist administration are broke, and soldiers are often paid months late. One of the few bargaining chips held by the UN Transitional Authority is its plan to pay soldiers and civil servants some $5m to $7m a month until a recognised government is formed.

Reduced support for Iran president

IRANIAN President Akbar Hashemi Rafsanjani won a second four-year term yesterday with a reduced vote that underlined the waning popularity of the country's Islamic revolution, Reuter reports from Tehran.

But Mr Rafsanjani saw the result as a vote of confidence in his economic reform plans. "That a considerable majority of people supported the programme is a great asset for me and my colleagues that would encourage us to execute the rest of the programme with confidence," he said in a message broadcast on radio and television.

Diplomats described the result and the low turnout as a near-humiliation which could severely limit the president's authority.

Final results of Friday's poll, announced yesterday, gave the 58-year-old cleric 10.6m votes, or 63.2 per cent of the vote, compared with 94.5 per cent in the 1989 election.

The turnout was 57.6 per cent, showing that economic hardship made many voters indifferent to calls from the ruling clergy for a mass display of faith in the 1979 revolution.

It meant that Mr Rafsanjani, running against three no-hope challengers, won endorsement from fewer that 11m of the 29m Iranians eligible to vote.

The big surprise was Mr Ahmad Tavakkoli, a former labour minister who now edits the economic section of Tehran's right-wing daily Resalat. His campaign attacks on economic mismanagement captured 23.8 per cent of the votes.

Diplomats said the weakened Mr Rafsanjani may now be more reluctant to push through with efforts to curb radicals who continue to foment militancy at home and abroad.

Trade unionist Chakufwa Chihana, leader of the Alliance for Democracy (Aford), gives a victory salute to supporters as he is freed on Saturday after six months in a top security jail for sedition. The alliance is campaigning for a multi-party vote

Malawians vote on democracy

THE LIFE presidency of one of the world's most durable absolute rulers goes on the line today when Malawi votes on western-style democracy, Reuter reports from Blantyre.

Dr Kamuzu Hastings Banda has run the tiny southern African nation like a private estate since independence from Britain in 1964. But he has been forced by internal unrest and western pressure over abuses of power to hold a referendum on whether Malawi *remains a one-party state or* permits opposition parties.

The nonagenarian Ngwazi. (conqueror) – officially he is 87 but is widely believed to be around 95 – predicts the roughly 4m voters will endorse his paternal autocracy.

An opposition alliance is equally confident that Malawians have woken up from years of oppression to a new dawn of democracy creeping over Africa.

Whatever happens, diplomats say it is unlikely Dr Banda's old style of government, which critics say brooks no opposition on pain of detention or even death, can survive.

Western donors who keep the nation afloat are withholding all except humanitarian assistance in protest against human rights violations. Malawians have shown unprecedented resistance to the ruling Malawi Congress Party (MCP) – rioting a year ago killed about 40 people.

Even the old president has *appeared to acknowledge he* cannot go on as before. At one rally he conceded there was more than one side to debate.

The Alliance for Democracy (Aford) is campaigning for a multi-party vote with the United Democratic Front (UDF) led by Mr Bakili Muluzi, a sacked former minister .

In event of a victory, the opposition wants a national unity government set up within a week to draw up a democratic constitution and a bill of rights.

Nigerian election goes smoothly but turnout low

By Paul Adams in Lagos

NIGERIA'S military government successfully staged elections for a civilian president on Saturday, after three delays in the last three years, *but turnout was low*. Results are unlikely to be announced until tomorrow at the earliest.

Among those who did not cast a vote were Mr Bashir Tofa, the presidential candidate for the right-of-centre National Republican Convention (NRC), and his vice-presidential running mate, Mr Sylvester Ugoh. Mr Tofa arrived late at his local polling booth in the northern city of Kano, and found that his voter's registration card was out of date.

Under Nigerian law, a candidate is barred from winning the presidency if he is not registered to vote in these polls, but the National Electoral Commission has already cleared both parties' candidates to stand for election.

Mr Tofa's rival, Mr Moshood Abiola, had no such problems at his polling station, which is in Moshood Abiola Crescent in Lagos, but the turnout, even in such partisan territory, was *about a third of the number* registered to vote.

Of the 36m who are registered, disillusionment with the choice of candidates and the rigid voting schedule helped to keep voters away even in the urban areas where there were shorter travelling distances.

Everyone had to be at their polling station by 8am to be accredited and to remain after voting until about midday when the ballot papers were counted.

Polling passed off smoothly in most parts of the country. The agents of both parties were able to check the count at each level. One of the foreign observers at these elections will be at the electoral commission headquarters to watch the final count.

Apple chairman puts emphasis on breakthrough in the Gatt market access talks

Trade seen as key for Clinton

By Lionel Barber in Brussels

BIG business in the US is worried about President Clinton's slide in popularity but is pinning its hopes of a revival on a breakthrough in the Gatt world trade talks next month, according to Mr John Sculley, chairman and chief executive of Apple Computer.

Mr Sculley said an agreement on market access between the US, Japan, Canada and the EC at next month's Group of Seven summit in Tokyo would give an important psychological stimulus to the world economy, strengthening Mr Clinton's chances of securing congressional support for his tax package.

A confidant of Mr Clinton, Mr Sculley added these two successes would leave the president able to take on ratification of the North American Free Trade Agreement with Mexico and Canada: "Then you will see his popularity increasing dramatically in September and October."

Mr Sculley offered his assessment of the US and European political scene during a wide-ranging interview last week in Brussels, where he was attending a meeting of the Transatlantic Policy Network, a new group of industrialists and parliamentarians dedicated to improving transatlantic relations.

In the interview, Mr Sculley described Mr Jacques Delors, president of the European Commission, as a "true visionary" in his drive to create the European single market. Now he was the ideal figure to carry a new message: that the EC had to move from the "old economy" to a new, high skills, information intensive economy dependent on increasing productivity.

Higher productivity did not mean fewer jobs, he said. Rather the aim should be to raise productivity through economic expansion by means of greater market access.

Mr Sculley was equivocal about the EC's plans for a single currency.

He criticised high German interest rates as "a misplaced policy", adding that it was "unfortunate that all of Europe is having to pay for the assimilation of East Germany into West Germany".

On trade matters, Mr Sculley drew a distinction between Japan and the EC, noting that the US-European relationship had largely been trouble-free in the context of the overall trade balance.

On Japan, Mr Sculley strongly defended the administration's tough approach. Although he rejected the term "managed trade", he suggested that some numerical measure of market access was justified.

"However you get there, the US can't go on year after year with a huge bilateral imbalance between us and Japan."

Sculley: defended US approach to trade with Japan

US, Japan fail to bridge gap in trade talks

By Michiyo Nakamoto in Tokyo

TWO days of talks between the US and Japan, which ended in Washington on Saturday, failed to narrow the gap between the two sides on a framework for bilateral trade negotiations and in particular on how Japan's huge trade surplus might be reduced.

The talks were the first round of formal exchanges between US and Japanese officials aimed at formulating a framework for negotiating economic and trade issues, which was agreed between President Bill Clinton and Mr Kiichi Miyazawa, the Japanese prime minister, in April.

The inconclusive nature of the talks leaves the possibility of further uncertainty on the foreign exchange market where US unhappiness with Japan's surplus and the lack of a clear Japanese strategy for reducing it have led to the rapid appreciation of the yen against the dollar.

Although details have not been revealed, on the first day of talks the US is believed to have urged Japan to accept its proposal to set a target of reducing its current account surplus to within 1-2 per cent of GDP development and increase the ratio of imports to GDP.

Japanese officials, however, are expected to have rejected that on the grounds that the surplus and its import ratio are both the result of economic activity over which they do not, as members of a free market economy, have control.

The US and Japan are committed to agreeing ground rules and procedures for the talks before the Group of Seven summit early next month. However, the two sides are still far apart on their views of what lies behind Japan's high trade surplus.

The US believes the closed nature of Japan's markets is a main reason for the surplus and would like to set measurable indicators of progress to ensure that Japan opens its markets to imports.

Japan, on the other hand, insists that it has one of the most open markets in the world and emphasises the imbalances of investment and savings in the two countries as being a big factor behind its surplus.

It believes more long-term measures are needed on both sides to reduce its surplus with the rest of the world.

On the second day of the talks, the US and Japan were, however, able to agree on global co-operation in issues such as environmental protection and technology transfer.

The talks are expected to resume in Tokyo in the last week of this month.

Mondale faces testing time on Tokyo mission

MR Walter Mondale, the former US vice-president pictured above with President Bill Clinton, will arrive in Japan as US ambassador at a time when relations are strained by trade tensions and plagued by cultural miscues, AP reports from Tokyo. Mr Clinton formally proposed Mr Mondale as envoy last week.

The tenure of outgoing Ambassador Michael Armacost, who arrived in 1989, has coincided with a distinct chilling of sentiment on both sides of the Pacific. Japanese critics dubbed Mr Armacost *"Gaiatsu-san"* – Mr Foreign Pressure – for his frequent criticism of government policy.

Some believe Mr Mondale's appointment could set a new tone; the choice of a former vice-president as ambassador is seen as a sign of respect.

EC hopes Bonn row will fade

By Lionel Barber

THE European Commission is counting on quiet diplomacy to head off a damaging dispute with Germany after disclosure of a secret non-aggression pact on telecommunications between the Bonn government and the US.

EC officials believe the bilateral understanding forswearing trade sanctions was struck by the Economics Ministry without the knowledge of the German Foreign Ministry.

Sir Leon Brittan, EC commissioner for external economic relations, has asked Bonn for an explanation and Brussels officials yesterday described the German move as a direct challenge to the single European market, and said it could jeopardise EC unity in the Gatt trade talks.

"If the German government sticks to its position, it is a very serious matter," said a senior EC official, referring to the political damage ahead of next week's EC summit in Copenhagen.

The understanding on telecommunications and other service industries was reached between Mr Günter Rexrodt, federal economics minister, and Mr Mickey Kantor, US trade representative, apparently in the margins of this month's annual meeting of the Organisation of Economic Co-operation and Development. Mr Rexrodt indicated that Germany would not pass into law Article 29 of the EC's Utilities Directive which gives a 3 per cent price preference for EC companies.

Mr Rexrodt also pledged not to apply discriminatory trade sanctions against the US which earlier imposed a ban on bids from EC companies for $19m worth of public procurement contracts, in protest against Article 29's restrictive provisions.

The German move challenges the decision by 12 EC foreign ministers to impose a $15m sanctions package in retaliation against the US on June 8 in Luxembourg. It seems to contravene the Treaty of Rome which awards sole competence in trade policy to the European Commission.

Last Friday, the German Economics Ministry defended its moves, declaring that Germany was bound by a 1954 friendship treaty with the US which forbids trade discrimination. It also insisted that the Utilities Directive was drafted deliberately loosely, so that the EC "may apply Community preference" and that any agreement was "not withstanding existing commitments to third countries".

EC officials hope that Mr Rexrodt will come under pressure from colleagues, nervous about the political reaction.

Diplomats in Brussels noted, however, that the German government has become much more assertive in its defence of free trade principles recently.

NEWS IN BRIEF

French bank reform backed

THE French National Assembly has approved the Balladur government's proposals to reform the statutes of the Bank of France so it can become an independent central bank in keeping with the terms of the Maastricht treaty, Alice Rawsthorn writes from Paris.

Despite opposition from hardliners in the Socialist opposition and from Gaullist nationalists within the centre-right coalition government, the National Assembly voted to accept the proposed reforms by an overwhelming majority.

Mr Edmond Alphandéry, economy minister, will on Wednesday present the final proposals for the new Bank of France legislation to the council of ministers. Under the new law the term of office of the governor and two deputy governors of the bank will last for six years and can be renewed once.

Mints cash in on gold coins

Seven of the world's mints are hoping to cash in on reviving consumer interest in gold coins following the recent rally in the gold market, David Blackwell reports from Istanbul.

The World Gold Council, trade association of the gold mining industry – revealed at the weekend that world sales of the five leading gold bullion coins on the international market rose by 56 per cent in April and May to 270,892 troy ounces, compared with the same period last year.

The council and the mints are spending $6m on a co-ordinated world advertising campaign starting in the Financial Times on Monday for the Australian kangaroo nugget, Austria's Vienna philharmonic, Canada's maple leaf, Mexico's libertad, South Africa's krugerrand, the UK Britannia and the US eagle.

Jailed westerners in Baghdad

Foreigners visiting westerners detained by Iraq confirm that a Briton and a German sentenced to eight years in prison for illegal entry are now in a Baghdad jail, diplomats said yesterday Reuter reports from Baghdad.

They said the Briton, Simon Dunn, 23, and the German, Kai Sondermann, were in Abu Ghraib prison on the western outskirts of Baghdad where other foreigners charged with similar offences are serving their sentences. The two men were arrested at gunpoint on May 28 and had been sentenced to eight years in jail on June 6 for illegal entry, a Foreign Office spokeswoman has said. Their imprisonment brings to six the number of Kuwait-based expatriates jailed by Iraq this year for illegal entry.

Israel approves free trade zone

Israel's cabinet yesterday approved plans to establish a private sector free trade zone to stimulate foreign investment and create jobs, Julian Ozanne writes from Jerusalem. Investors in the zone, to be sited either in the Galilee or the Negev desert, will be granted a 20-year income tax holiday and indefinite exemption from customs duties and import-taxes.

Mr Avraham Shochat, finance minister, promised that the free trade zone, the country's first, will create thousands of jobs for an economy with an unemployment rate of 10.6 per cent.

The finance minister also said yesterday that the scheme was designed particularly to attract US and other foreign companies which have complained about excessive bureaucratic red-tape for new foreign investors in Israel.

Egyptian extremist hanged

A Moslem extremist convicted of terrorist attacks and trying to overthrow the Egyptian government was hanged yesterday, the first execution among 22 militants sentenced to death by military courts, AP reports from Cairo.

An Egyptian convicted of spying for Israel was also hanged, said a military official who declined to be further identified.

Last year, President Hosni Mubarak started referring Moslem extremists to military courts to ensure speedy trials. The government has been involved in a violent confrontation with the radicals who want to turn Egypt into an Iranian-type theocracy. Over 150 people have been killed since 1992.

'Rattle Pepsi can before sipping'

The president of a regional Pepsi bottler urged cola drinkers to rattle their cans before taking a sip after a second can of Diet Pepsi was found to contain a hypodermic needle, touching off a federal criminal probe, Reuter reports from Seattle .

Mr Carl Behnke, president of the regional Pepsi bottler Alpac, said that preliminary Food and Drug Administration (FDA) laboratory tests revealed no contamination but urged consumers to inspect soda cans carefully.

Mr Behnke said the FDA had not advised it to recall its products, but it had opened a free consumer hotline.

Soldiers allow Haiti protest in support of Aristide

SOLDIERS allowed several thousand people in the western port of St Marc to march over the weekend in protest at the 1991 ousting of President Jean-Bertrand Aristide, AP reports from Port-au-Prince.

The march, an unusual act of tolerance, was one of several signs of growing support for the reinstatement of Mr Aristide, Haiti's first democratically elected president. Pro-Aristide and anti-army demonstrations have routinely been crushed by soldiers since the coup.

In the capital, the presidents of Haiti's business associations met to draft a declaration urging Aristide's reinstatement.

The draft called on parliament to recognise the exiled president's legitimacy and to approve an Aristide-designated prime minister to head a new government. In exchange, it asked Aristide to grant a general amnesty to coup leaders and endorse all laws passed by parliament since he was ousted.

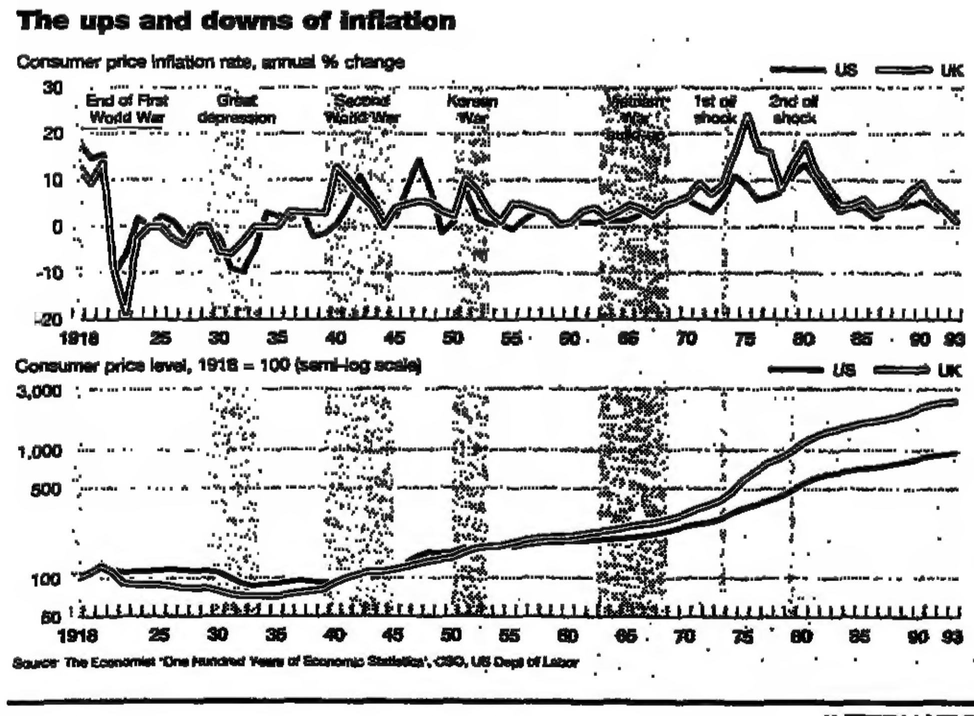
The army high command backs the proposal, according to a businessman close to senior officers.

A consensus for Aristide's reinstatement is also building among legislators. The National Assembly was due to convene today to begin working out a solution.

The march was organised by Protestant churches in the city 60 miles to the north of Port-au-Prince.

It has been the middle class, which supported the coup, that has grown increasingly frustrated with the failure of military-backed governments to find a way out of the crisis resulting from international economic sanctions imposed after the coup.

The ups and downs of inflation



Source: The Economist 'One Hundred Years of Economic Statistics', CSO, US Dept of Labor

Exaggerated rumours of inflation's death

IS inflation a thing of the past? "Yes" is the answer given by contemporary conventional wisdom. This sounds too good to be true. It probably is.

Indices of consumer prices suggest that the purchasing power of a 1933 pound had fallen to a mere 3p by 1993, while that of the dollar had declined to 9 cents. Ever since the Great Depression, money has been the creature of the state, which has discharged this responsibility with outstanding incompetence.

People go to jail for using fraudulent weights and measures. Governments try to get elected for doing the same thing to money. The reason they do so is that many voters benefit from the fraud. Unanticipated inflation creates unearned wealth and undeserved poverty. Politicians who could not get away with voting for the implied transfers of income and wealth hope to do the same thing by stealth.

Inflation achieves these effects only when unanticipated. But a steady rate of inflation can hardly remain unanticipated forever. That is the main reason why the inflation of the 1950s and 1960s exploded in the 1970s. Since the 1940 price level was below that in 1918 for both the US and the UK, it is not surprising that society took time to adapt to rising prices. By 1970, however, it had. In the meantime, society itself changed. Once it had a middle class of rentiers. Now it has one of barely abashed property speculators.

Inflation peaked in the 1970s. Although it has been far lower in the 1980s, it has still not ceased. Yet, given the difficulty of measuring quality improvement, it may not be all that far from the definition advanced by Mr Alan Greenspan, chairman of the Federal Reserve. "Price stability," he argued, "means that expected changes in the average price level are small enough and gradual enough that they do not materially enter business and household decisions".

Yet how optimistic should one be about the future? Some argue that competition from new suppliers will keep prices down. But this confuses changes in particular relative prices with changes in the overall price level. Others point to the low growth of credit and broad money everywhere that matters, except, amazingly, in Germany. This is a better argument, but sooner or later banks will have restored their capital base and borrowers will have regained their courage, even though this may take several more years.

A more cogent argument for optimism is that the benefits of inflation to policymakers are now small, its victims are better able to protect themselves and its beneficiaries are also politically weaker. Pensioners, for example, are too important a lobby to ignore. Meanwhile, potential victims either lend short or demand high long-term nominal interest rates in relation to current inflation. Policymakers know they are permanently on trial and, lacking exchange controls, face immediate penalties if they are condemned.

Nevertheless, there are also four good reasons for fearing that high inflation might be back one day. First, managed money has never delivered stable prices, or even stable low inflation, over a long period. Second, each year of relatively modest inflation lulls the public further, thereby increasing the redistributive effects of another burst of inflation. Third, there are plenty of debtors around who would adore higher prices. Finally, amongst those debtors are almost all major governments, whose accounts are bleeding red ink. The abolition of exchange controls may make it costly for a country to choose inflation on its own. But there is always the alternative of global inflation, no doubt euphemistically labelled "concerted reflation". Buyers of long-dated conventional bonds, remember and beware.

Martin Wolf

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.2	99.4	83.7
1987	105.6	100.7	103.8	98.7	74.9
1988	109.9	103.2	106.9	98.1	71.4
1989	115.2	108.5	110.0	98.9	75.0
1990	121.5	113.8	113.8	100.9	71.8
1991	126.6	116.3	117.3	103.5	71.3
1992	130.4	117.7	120.1	103.1	70.6
2nd qtr.1992	3.1	1.3	2.9	−0.5	71.2
3rd qtr.1992	3.1	1.6	2.3	−0.1	68.1
4th qtr.1992	3.0	1.6	2.0	−0.8	72.2
1st qtr.1993	3.2	1.9	2.8	−1.7	74.3
June 1992	3.1	1.6	2.6	−0.3	70.0
July	3.2	1.7	1.7	−0.2	68.5
August	3.2	1.6	2.6	−0.4	67.7
September	3.0	1.6	2.5	0.3	68.1
October	3.2	1.7	1.7	−0.4	70.3
November	3.0	1.4	1.7	−1.0	73.1
December	2.9	1.6	2.5	−0.9	73.3
January 1993	3.3	1.8	3.4	−2.0	74.4
February	3.2	1.8	2.5	−1.6	74.7
March	3.1	2.0	2.5	−1.4	74.0
April	3.2	2.4	2.6		72.5
May					72.6

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.6	95.3	101.4	103.3	119.2
1987	101.2	92.5	103.1	100.6	123.3
1988	102.2	92.3	107.6	96.2	130.0
1989	104.9	94.2	114.0	96.1	122.1
1990	108.2	95.7	120.1	98.2	109.2
1991	111.6	96.8	124.2	101.8	116.2
1992	113.9	95.8	125.6	110.6	118.7
2nd qtr.1992	2.6	−1.0	2.0	8.7	118.6
3rd qtr.1992	2.0	−0.9	0.7	8.0	117.1
4th qtr.1992	0.9	−1.2	−0.1	9.4	122.1
1st qtr.1993	1.2	−1.1			126.2
June 1992	2.5	−1.0	3.4	5.7	118.1
July	2.0	−0.8	2.0	7.8	116.8
August	1.8	−0.9	−1.8	11.4	115.4
September	2.2	−0.9	1.1	4.8	119.1
October	1.2	−1.1	1.2	6.6	121.8
November	0.8	−1.1	1.2	9.4	122.4
December	0.9	−1.2	−1.0	10.3	122.3
January 1993	1.0	−1.1	−3.6	9.2	122.0
February	1.3	−1.0	1.3	6.4	126.4
March	1.2	−1.2			129.4
April	0.9				132.6
May	1.0				134.6

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.8	103.7	107.0
1987	100.1	95.1	108.0	106.9	110.5
1988	101.4	96.2	113.0	106.7	109.9
1989	104.2	99.3	117.3	107.7	108.4
1990	107.0	101.0	123.8	110.2	110.3
1991	110.7	103.4	131.8	114.7	108.4
1992	115.1	104.8		121.1	110.5
2nd qtr.1992	4.5	2.0	n.a.	3.8	108.7
3rd qtr.1992	3.5	1.0	n.a.	6.1	111.2
4th qtr.1992	3.7	0.5	n.a.	8.2	113.3
1st qtr.1993	4.3	0.5	n.a.		113.3
June 1992	4.2	2.0		4.3	109.0
July	3.3	1.1		8.9	110.5
August	3.5	1.1		5.2	111.1
September	3.6	0.8		4.3	112.0
October	3.7	0.5		7.8	113.7
November	3.7	0.5		10.3	112.3
December	3.7	0.5		6.6	113.6
January 1993	4.4	0.8		12.1	113.4
February	4.2	0.5		12.2	113.4
March	4.2	0.3			113.2
April	4.3	0.1			113.1
May	4.2				111.8

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.5	102.9
1987	105.9	97.8	107.8	103.0	104.1
1988	108.8	102.8	111.1	104.3	101.8
1989	112.6	108.4	115.4	105.5	99.8
1990	116.5	107.1	120.6	110.0	102.9
1991	120.2	105.8	125.8	114.3	101.3
1992	123.0	104.0	130.3		104.7
2nd qtr.1992	3.1	−1.1	n.a.	1.8	103.3
3rd qtr.1992	2.7	−0.9	n.a.	2.6	105.0
4th qtr.1992	2.2	−1.5	n.a.		108.2
1st qtr.1993	2.1	−2.3	n.a.		109.1
June 1992	3.0	n.a.	3.8	n.a.	103.6
July	2.9	n.a.	–	n.a.	104.4
August	2.7	n.a.	–	n.a.	104.6
September	2.6	n.a.	3.5	n.a.	108.2
October	2.4	n.a.	–	n.a.	108.8
November	2.1	n.a.	–	n.a.	108.0
December	2.0	n.a.	3.6	n.a.	107.9
January 1993	2.1	n.a.	–	n.a.	108.5
February	2.1	n.a.	–	n.a.	109.6
March	2.2	n.a.	3.4	n.a.	109.2
April	2.1	n.a.	–	n.a.	110.0
May		n.a.	–	n.a.	109.4

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	103.6
1987	111.0	103.2	111.6	105.5	104.9
1988	116.5	106.8	118.4	109.7	103.8
1989	124.2	113.1	125.6	112.3	107.4
1990	131.8	117.8	134.7	118.9	108.5
1991	140.3	121.7	147.9	131.3	107.7
1992	147.7	124.0	156.9		102.4
2nd qtr.1992	5.5	2.0	6.0	4.7	105.6
3rd qtr.1992	5.2	1.9	3.7		104.4
4th qtr.1992	4.8	2.2	2.9		93.0
1st qtr.1993	4.3				85.9
June 1992	5.4	2.1	4.7	n.a.	105.5
July	5.4	1.9	4.0	n.a.	106.2
August	5.2	1.9	3.5	n.a.	106.5
September	5.1	1.9	3.7	n.a.	100.4
October	4.9	2.0	4.1	n.a.	92.8
November	4.8	2.2	2.1	n.a.	94.7
December	4.6	2.5	2.4	n.a.	91.4
January 1993	4.2	2.8		n.a.	88.0
February	4.4	2.9		n.a.	86.0
March	4.2			n.a.	83.8
April	4.2			n.a.	84.2
May	4.0			n.a.	88.0

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	104.3	107.7	104.5	94.2
1987	107.7	108.3	118.3	105.9	94.2
1988	113.0	113.2	126.2	108.9	101.6
1989	121.8	119.0	137.2	113.6	100.9
1990	133.3	126.0	150.1	123.2	102.2
1991	141.2	133.0	162.4	130.3	105.8
1992	146.4	138.0	173.1	132.2	102.8
2nd qtr.1992	4.2	3.6	5.9	1.2	107.6
3rd qtr.1992	3.6	3.5	6.2	2.0	105.7
4th qtr.1992	3.0	3.4	6.7	−0.6	92.9
1st qtr.1993	1.8	3.7	4.7	−2.9	92.7
1992 June	3.9	3.6	5.9	1.7	108.2
July	3.7	3.6	6.2	2.9	107.8
August	3.6	3.4	6.5	1.8	107.0
September	3.6	3.4	5.7	1.1	102.3
October	3.6	3.3	6.3	0.1	93.6
November	3.0	3.3	5.6	−0.4	91.3
December	2.6	3.5	5.4	−1.4	93.4
1993 January	1.7	3.6	5.0	−2.9	94.9
February	1.8	3.7	5.1	−2.7	90.3
March	1.9	-3.7	4.2	−3.0	92.4
April	1.3	3.8			95.3
May					95.4

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. *Consumer prices:* not seasonally adjusted. *Producer prices:* not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. *Earnings index:* not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). *Unit labour costs:* seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. *Real exchange rate:* JP Morgan real effective exchange rate index versus 15 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

Çiller offers change from grey-suited political mainstream

Turkey's first woman PM must reforge party image

By John Murray Brown in Ankara

MRS Tansu Çiller, a former economy minister, is to be predominantly Moslem Turkey's first woman prime minister after being elected leader of the largest party in parliament yesterday.

Mrs Çiller, a 47-year-old academic economist better known for the fact that her husband took her maiden name, won 574 votes in the True Path party's leadership race, just 11 short of an absolute majority - of those eligible to vote - on the first ballot. Interior minister Ismet Sezgin, with 320 votes, and education minister Koksal Toptan, with 212, then withdrew their candidacy. She will be sworn in today.

Premier faces urgent policy agenda – from inflation to the rebelling Kurds

A welcome foil to the drab, grey-suited male politicians of Turkey's mainstream, Mrs Çiller will have to reforge the party's image in the wake of Mr Suleyman Demirel's move to the presidency, which led to yesterday's leadership contest.

Party strengths in parliament are finely balanced. Her first task will be to choose a cabinet in coalition with the junior partners Social Democratic Populists (SHP) after the announcement that Mr Erdal Inonu, SHP leader, would stand down in September.

Written off by many commentators when she was first elected to cabinet in 1991, Mrs Çiller emerged a surprising winner, apparently convincing delegates that she offered the better chance for re-election, rather than the respected but uninspiring Mr Sezgin, her main challenger.

Mrs Çiller faces the difficult task of rebuilding the party ahead of vital municipal elections next year. A staunch European who speaks good English and German, Mrs Çiller is likely to accelerate Turkey's economic convergence with the European Community. She is expected to speed up the privatisation of state enterprises, which lose an estimated $2bn (£1.2bn) a year.

Her anti-inflation policy has proven more controversial and brought her near to open conflict with Mr Rusdu Saracoglu, the central bank governor. Mr Saracoglu's future must now be in doubt.

Mrs Çiller has cut a curious figure in her Chanel suits assiduously courting the party's predominantly Moslem constituents with claims that the call to prayer makes her "feel good".

Addressing the congress of 1,169 DYP delegates, Mrs Çiller promised yesterday she would visit Germany in the wake of right-wing attacks on Turkish families in a number of German cities - another gesture to rural supporters.

She faces an urgent policy agenda - from annual inflation, which is running at more than 60 per cent, and the bloody Kurdish rebellion on the domestic front to an arc of foreign policy concerns from the Caucasus, north Iraq and the Balkans.

During 20 months as chief economics minister she has overseen a radical trade reform, moving the country back on track for full customs union with the European Community in 1995. Following legislative changes the stock exchange has enjoyed a renewed lease of life. Before the vote this weekend, the index had reached a record.

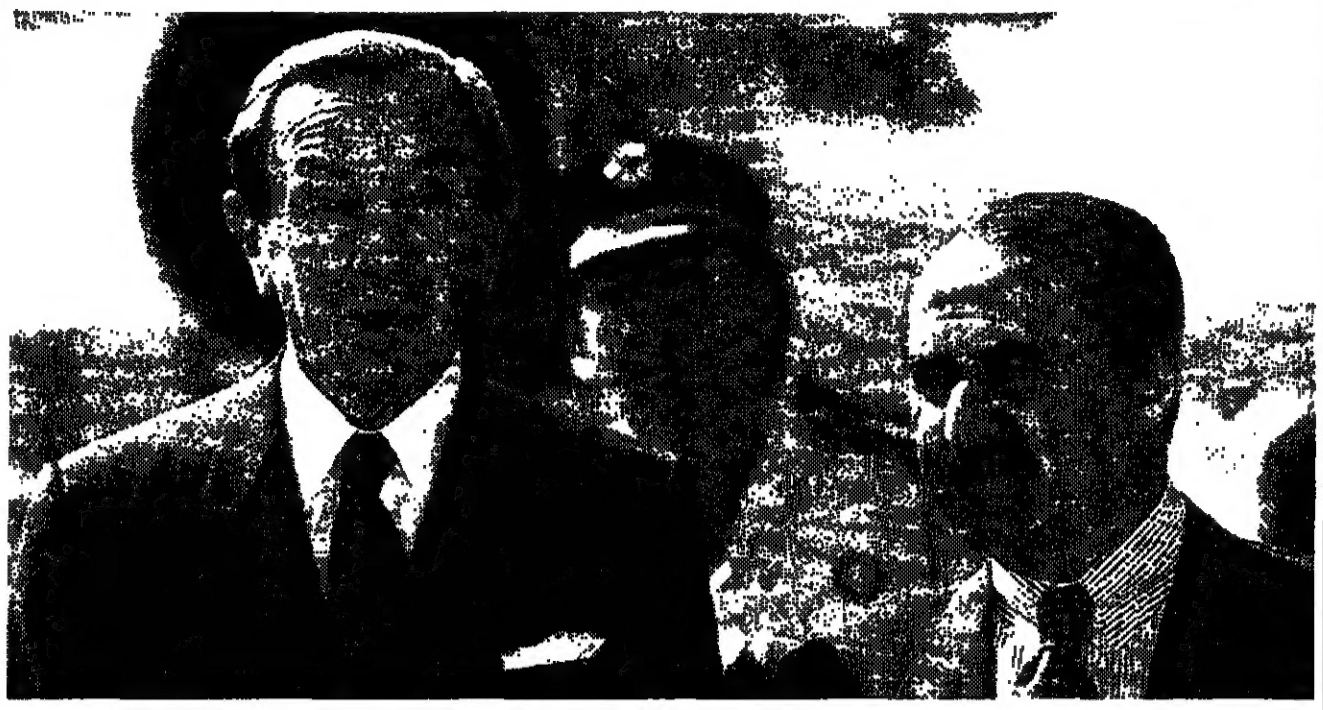
She has had mixed fortunes in her anti-inflation policy centred on restructuring the government's domestic debt, which has put downward pressure on interest rates. Debt service, at about 40 per cent of recurrent budget expenditures, fuelled the public sector's borrowing requirement, running at close to 12 per cent of gross national product.

Mrs Çiller first came to attention when commissioned by the Istanbul Businessmen's Association to produce a report on Turkey's debt during the former Motherland party administration. Her findings were so critical it brought the association into direct conflict with then prime minister, Mr Turgut Ozal.

She will want to keep her distance from Mr Demirel, whose accession to the presidency created this leadership race.

Mr Demirel for his part will want to counter the impression that he opposed Mrs Çiller's candidacy.

Tansu Çiller: will want to keep distance from Demirel



THE US is to sell helicopters to Turkey and transfer 50 A-10 tank buster aircraft in a $356m (£231.1m) package unveiled in Ankara over the weekend by Mr Warren Christopher, US secretary of state (pictured left with his Turkish counterpart, Mr Hikmet Çetin). The deal, which includes the purchase of five Super-Cobra attack helicopters, gets around a US congressional move last year to cut US military aid to Turkey and Greece and Portugal, other southern flank Nato members, under which grants were changed to credits, writes John Murray Brown. .

Until this year Turkey was the third largest recipient of US military aid after Israel and Egypt, receiving about $500m annually under the US foreign military sales programme, most of which was used in Turkey's F-16 fighter aircraft manufacturing project.

Mr Christopher said the Clinton administration would seek congressional approval for the latest sales.

Mediators step up Bosnian peace initiative

LORD Owen and Mr Thorvald Stoltenberg, the international mediators, met Bosnian President Alija Izetbegovic in Geneva yesterday as part of renewed diplomatic efforts to end the slaughter in the former Yugoslav republic, agencies report.

The talks coincided with reports that Serb rockets flattened a temporary hospital, killing more than 50 patients and medical staff, in the blockaded east Bosnian Moslem enclave of Gorazde.

The death toll, if independently confirmed, would be one of the worst in a single incident in the 14-month war between Bosnia's Moslem, Croat and Serb communities.

Officials of the Moslem-led Bosnian government said it had urged Mr Izetbegovic to return home immediately from Geneva to underline the gravity of the crisis in the enclave.

The talks, a day after the mediators met Croat leaders, focused on the growing conflict between the Moslem-led government and its former Croat allies.

Lord Owen said that one of the main aims of the talks was to alleviate fighting between Moslems and Croats "but the essential task is still the overall peace settlement".

Shortly after the discussions, Moslem, Croat and Serb members of Bosnia's presidency gathered at the UN's European headquarters for a special session to discuss temporary power-sharing arrangements.

Lord Owen wanted the presidency – comprising President Izetbegovic and two other Moslem representatives, two Croats and two Serbs – to consider delegating more authority to a so-called co-ordinating body as a prelude to an interim government.

Late yesterday Sarajevo radio, monitored by the BBC, said the presidency had ordered an immediate end to fighting between its forces and Croats.

The radio quoted the presidency order as saying: "All conflicts between units of the army of Bosnia-Hercegovina and the formations of the Croatian defence council must stop immediately." It added that Moslem-led government army commander Rasim Delic and Bosnian Croat army chief Milivoj Petkovic would be responsible for implementing the truce.

UN commanders called a meeting of Serb, Croat and Moslem army chiefs to take place at Sarajevo airport tomorrow to discuss a lasting ceasefire.

Lord Owen and Mr Stoltenberg hope to gather leaders of all the Bosnian factions, as well as Serb President Slobodan Milosevic and Croatian President Franjo Tudjman, for talks in Geneva on Wednesday.

From the battlefront, Sarajevo's Moslem-controlled radio said there were no survivors of the direct hit on the temporary hospital building in Gorazde and added: "Pieces of human bodies are mixed with cement, broken boards, bricks and mortar."

Fifteen people were reported killed yesterday before the hospital was hit.

About 60,000 inhabitants and refugees are trapped in Gorazde, which Serbs are attacking in defiance of its designation as a UN safe area.

Meanwhile, Sarajevo had one of its worst bouts of shelling in weeks as gunners around the city ignored a warning by the commander of UN troops in Bosnia that the country was sliding towards anarchy.

On Saturday General Philippe Morillon threatened to pull out the 9,000-strong UN Protection Force under his command if local political and military leaders did not commit themselves firmly to the faltering peace process.

General Motors warns VW over Spanish plant

By Christopher Parkes in Frankfurt

GENERAL MOTORS of the US has warned Volkswagen of further legal action if it goes ahead with plans for a revolutionary ultra-low-cost car production plant in Spain.

A letter delivered at the weekend to Mr Ferdinand Piëch, chairman of the German group, said a "similar" project was prepared by Mr José Ignacio Lopez de Arriortúa while he was still employed by General Motors.

The warning was sent as Mr Lopez prepared to hold his first press conferences since he defected from the US group to VW in March. In two appearances today, in Hanover and later in Madrid, Mr Lopez is expected to announce that Volkswagen will build a new super-lean production plant in his Basque homeland, where cars can be built in less than half the time needed in the average European factory.

Last week Seat, VW's Spanish subsidiary, said "some especially interesting" proposals had been put forward from regional authorities.

The GM letter represents a further step in the US group's campaign against Mr Lopez, which is focused on charges, now under investigation by public prosecutors in Germany, that he and several of his associates took top secret industrial, model and marketing plans with them when they went to VW.

While still at GM, Mr Lopez shrouded his proposals for the so-called Plateau 6 works in secrecy. Numbered copies of all plans, including draft factory drawings and car model designs, are still in the possession of the US group's top executives.

Mr Lopez campaigned fiercely at GM for his Plateau 6 plant to be built in his homeland, where he retains strong political connections. The US group's refusal to comply, and its preference for any future investments to be made in eastern Europe where costs are below those in the European Community, are understood to be the main reasons for his stormy departure from Detroit in March.

The Plateau 6 concept is aimed at improving production efficiency beyond the levels achieved by Japanese manufacturers. The proposals include plans for component suppliers to ship complete modules rather than single parts into the works where their employees would install them in vehicles. Other concepts include a wide range of differential pay rates for car assembly staff, breaking with the standard practice of paying all line operators the same basic wage.

Last month GM suffered its first important loss in its legal battle against VW.

An initial attempt to prevent seven former employees of GM and Adam Opel, the US group's German subsidiary, from working for VW for 12 months was thrown out by a Frankfurt court.

The seven included former top members of Mr Lopez's buying team at GM, who left the US shortly after their boss.

Tough Yeltsin line on Kuriles

By Leyla Boulton in Moscow

PRESIDENT Boris Yeltsin has told Japanese hosts of next month's Group of Seven summit not to expect any concessions on the four Kurile Islands they want back from Russia.

In comments which are likely to be seen by Tokyo as insulting, he said on Saturday he felt "a certain discomfort" as there would be a meeting with Mr Kiichi Miyazawa, Japan's prime minister, and the question of the islands would come up. "I will not be able to tell him anything new."

Mr Yeltsin, who is expected to discuss aid for Russian economic reforms with G7 leaders in Tokyo, is also likely to touch on bilateral issues in talks with Mr Miyazawa.

The trip next month follows the last-minute cancellation of a bilateral visit last autumn and confusing signals about whether he planned a separate visit after the summit.

It has also emerged that the shadowy security council, which last year took the decision to cancel the presidential visit to Tokyo, is to be headed by Marshal Yevgeny Shaposhnikov, previously head of the Commonwealth of Independent States' unified command.

The council is a committee of senior officials that deals with foreign and some domestic affairs, in addition to security.

Mr Yeltsin said he had appointed the marshal without consulting other commonwealth states because their plans to set up their own armies meant the unified command no longer had "much weight". The marshal was chosen for his military background and because Mr Yeltsin had "absolute faith" in him, unlike his predecessor, Mr Yuri Skokov, sacked for disloyalty.

Dealing with diplomacy closer to home, Mr Yeltsin said he would meet Ukrainian President Leonid Kravchuk on Thursday to discuss problems of fuel supplies to Ukraine and the row over the Black Sea Fleet. "We had to turn the tap off [energy supplies], then immediately there was this fuss over the Black Sea Fleet," he said. Moscow could not go on "giving away energy" to Ukrainian enterprises which were not paying their bills.

Azerbaijan turns to old guard

MR Geidar Aliyev, former Communist party boss in Azerbaijan, was set yesterday to sweep back into power on the coat-tails of nationalist democracy's failings, writes Leyla Boulton.

The protégé of former Kremlin leader Leonid Brezhnev was offered the powerful post of parliamentary chairman after Mr Isa Gambarov, one of the leaders of the anti-Communist Popular Front, said he was resigning for the sake of "civic accord".

Mr Aliyev, 70, was invited back to the capital Baku after an uprising launched by one of his supporters in Gyandzha, Azerbaijan's second largest city. The leader of the insurrection, Mr Suret Guseinov, who is holding government officials hostage, has called for the resignation of President Abulfaz Elchibey, who sacked him from his military command in the disputed Nagorno-Karabakh region earlier this year.

Meanwhile, Azerbaijan switches fully to its own currency – the manat – tomorrow, according to a presidential decree.

NEWS: UK

Tory manifesto promises could become casualties of battle to control state borrowing

Cabinet rifts open on tax and spending

By Ralph Atkins

CABINET rifts over government tax and spending policies opened yesterday as Mr Michael Heseltine raised the spectre of Tory manifesto promises becoming casualties of the battle to control public borrowing.

As senior Tories sought to brush off further falls in opinion polls, the trade and industry secretary clashed with right-wing Cabinet ministers who made clear their opposition to reneging on the Conservative's 1992 election pledge not to increase income tax.

The row preceded Thursday's public spending Cabinet when Mr Kenneth Clarke, chancellor, will tell his colleagues that public spending cannot breach the £253.6bn *ceiling set for the 1994-95 financial year.* Mr Clarke will tomorrow break with recent tradition and use the Mansion House speech in the City – his *first speech as chancellor* – for a wide-ranging review of economic policy.

A damaging split over tax and spending priorities, likely to continue over the summer as the Treasury struggles to curb departmental budgets, will add to the difficulties Mr John Major faces in restoring confidence in his leadership.

In a interview yesterday, the prime minister said he was "philosophically attracted to the lowest possible level of taxation." But he was not prepared to prejudge November's *budget.*

Mr Major faces the ignominy today of a review by the right-wing 92 group of Tory backbenchers of Conservative party *prospects.* Their message, although coated in language supportive of the prime minister, is expected to make plain that in their eyes he is on probation.

Senior figures on the Tory right confirmed yesterday that Mr Clarke, although pro-European, could win their support in a future Conservative leadership election if he successfully cuts state spending rather than increasing taxes.

Most Tory MPs believe, however, that a leadership challenge is highly unlikely this year. But few – including the prime minister himself in his Mail on Sunday newspaper interview – are prepared to rule out a contest before the general election.

An earlier test will be the Christchurch by-election, where the Tories are defending a 23,000 majority. Late July, just before the Commons' rises for the summer recess, emerged at the weekend as the most likely date.

Speaking on BBC television, Mr Heseltine expected "turbulence ahead" for the government and predicted the economy, schools testing and policy on Europe, "are going to cause us considerable difficulties".

He said that Britain was living "beyond its means" with "an infrastructure of entitlement and opportunity" way beyond the nation's ability to pay. Asked about income tax rises, Mr Heseltine said the chancellor had to "re-visit" all options for tackling the deficit, but added: "You will find in practically every case that there is a manifesto commitment which blocks off the options, and if you then say 'fine, we've made a manifesto commitment, all the options are blocked off', well I tell you it won't be a £50bn deficit we're dealing with next year, it will be a bigger one."

Nadir acts against his trustee

By Andrew Jack

MR ASIL NADIR, the fugitive businessman, has attempted to revoke the power of attorney which he gave to his trustee in bankruptcy.

Mr Neil Cooper, the trustee from accountants Robson Rhodes, confirmed yesterday that he had received a letter in Turkish and English signed by Mr Nadir on Friday. The letter withdrew Mr Cooper's right to *act on behalf of Mr Nadir.*

If Mr Nadir's revocation is accepted, it will further threaten attempts by the trustee to keep control of assets in Turkey on behalf of creditors, and could also prove politically embarrassing for the Turkish government, which has been in talks with the Serious Fraud Office and the British authorities about the former head of Polly Peck International.

The action comes just in advance of Tuesday's preliminary hearing at the Old Bailey on Mr Nadir's case, at which lawyers representing Mr Cooper will claim rights to £2m of Mr Nadir's £3.5m bail money which he forfeited by fleeing to northern Cyprus last month.

Bank bids for state computer service

By Robert Peston, Banking Editor

BARCLAYS, the biggest UK bank, *is on the short list of* bidders to buy DVOIT, the organisation that provides computer services to the Department of Transport and its executive agencies.

There are four other bidders on the short list: EDS-Scicon, the information technology subsidiary of General Motors of the US; Computing Sciences Corporation of the US; Hoskyns, the UK computing services group; and a consortium *combining DVOIT managers* and IBM of the US.

DVOIT's largest customer is the Driver and Vehicle Licensing Agency, which collects vehicle excise duty and licences drivers and vehicles.

Barclays said it wanted to exploit the expertise it has acquired over the past 30 years running one of the country's biggest computer systems, which provides money transmission, cheque clearing and settlement services.

Its bid is part of a strategy to reduce its dependence on earnings from traditional banking activities. In common with many banks, Barclays expects only modest growth in sales of *banking* services in the next few years. No other UK clearing bank has gone this far in seeking ways to boost earnings from their complex computer systems.

A year ago Barclays set up a trading *business,* Barclays Computer Operations (BCO), which runs the bank's computer operations and also competes to manage other companies' computers, a service known as Facilities Management. It has since made an abortive bid to manage the Inland Revenue's computer operations, which are being contracted out to the private sector.

The bank said that in the past year *BCO had acquired* 10 clients in addition to working for the bank. It said these included some substantial UK companies, though it declined to name them.

It also refused to comment on *its bid for DVOIT,* because it has signed a confidentiality agreement with the government. The question remains of whether it would want to employ all of DVOIT's staff or keep its mainframe computers.

DVOIT, based in Swansea, has 500 employees and three mainframe computers, which can be accessed from 4,000 terminals in 200 offices throughout the UK. The Department of Transport said it hoped to complete the privatisation of DVOIT by the end of the year.

Reprieved pits under threat over prices

By Michael Smith

DOUBTS about the future of 12 reprieved coal mines have increased following the insistence *by the two main electricity* generators that British Coal reduce prices to below world levels to reflect stocking costs.

"There is no reason why our shareholders should have to pay stocking costs for coal we do not need immediately," said one generator executive.

The hardline approach by National Power and PowerGen will anger ministers because the government has said it will subsidise output from the 12 to meet the difference between production costs and sale prices until privatisation within three years.

Unless British Coal can increase sales by 15m tonnes a year it is likely to have to start closing the pits, which were reprieved less than two months ago after a public outcry over *plans for a further sharp contraction* of the mining industry.

The generators' case for lower prices is based on their argument that anything they buy will have to be added to stockpiles already big enough to meet the needs of power stations for six months.

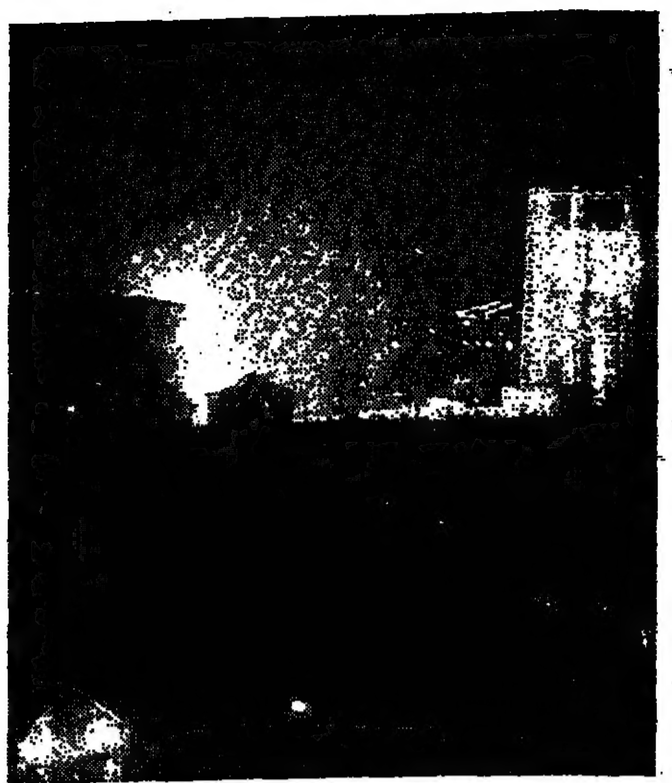
British Coal has already negotiated to sell 40m tonnes of coal to the generators this year and 30m in each of the next four years. These sales will, however, *provide* a market for only the 19 pits which British Coal considers its core mines.

The company has already offered to cut the price to between 90p and 95p a gigajoule – a measure of thermal efficiency – less than two-thirds the price in the core contracts.

But that figure compares with a price of about 86p for coal traded in Rotterdam, *where most coal imports to Europe are bought and sold.*

Terror attacks highlight problems for industry

Chris Tighe and **Deborah Hargreaves** on plant security



Fire follows the bomb explosion at a Gateshead gasholder last week: such installations offer *terrorists* an economic target

THE IRA bomb attacks last week in north-east England on a Gateshead gasholder and an Esso petrol and oil terminal in North Shields have highlighted the security problems terrorism poses for the owners of industrial installations.

Such complexes offer terrorists an economic target, presenting the opportunity for dramatic, publicity-generating damage and serious disruption to business interests.

After last Wednesday's explosion and fire, caused by an IRA attack at Tyneside's *largest gasholder complex,* Mr James Marris, chairman of British Gas Northern, admitted it was impossible to achieve total security at such a compound. "I don't think we can stop anybody getting into any of these sites. A determined intruder can get in almost anywhere. The main thing is to detect it quickly enough to do something about it."

Esso, whose North Shields terminal has been attacked by the IRA twice in seven weeks, refused to discuss its security arrangements at the site, apart from confirming that it had round-the-clock cover.

Esso stressing the vast acreage of land covered by installations such as oil refineries and petrochemical complexes, endorsed Mr Marris' comments: "He is expressing the views of everybody who is involved in running industrial complexes which have an element of risk about their operations or products."

Lessons should be learned and action taken "to make sure either it can't happen again or to *make* sure the risk is managed more tightly", said Esso.

Most oil companies employ former police and army officers as security advisers and many have contracted out their security. While many companies are reluctant to talk about *their arrangements,* British Petroleum said the recent bombs had led to the tightening of security.

The three gasholders on the Gateshead site attacked last Wednesday have a total capacity of 7.7m cu ft of gas. The compound is near homes and *400 people were evacuated for* five hours following the explosion and fire.

But Mr Marris insisted that gasholders, which resisted wartime bombing, were "inherently safe structures". The gas in the holders would not explode unless it was mixed with air and the their structure made that unlikely to happen.

British Gas has fallen victim to four IRA bombs – *the recent Warrington* bombing and two sites in London in the 1980s. "It looks pretty dramatic, which is why they target them, but the chances of someone being injured are pretty slim," the company said.

North-east England's good *road infrastructure is normally* cited as an attraction for inward investors but it is becoming *evident that it is also* a bonus for terrorists. Northumbria police last week noted the proximity to fast roads of the sites on Tyneside targeted by the IRA.

The police declined to comment on speculation that an IRA cell might have been set up in the region. Newcastle University politics lecturer Mr David George, a terrorism specialist, believes that targeting north-east England, along with the north-west and London, helps the IRA promote its image of omnipotence.

"They want to show the IRA has a very long arm," he said.

One of the notable features *of the region,* which *has 350* foreign-owned plants, is its strength in securing inward investment.

But Mr George warned management at these workplaces, as well as the operators of high-risk sites handling volatile substances, to beware of the IRA.

THE WEEK AHEAD

ECONOMICS

Hope of pointers on UK policy from Clarke's first Mansion House speech

MR KENNETH Clarke, the new British chancellor has picked a busy, and potentially awkward, week to deliver his first pre-budget Mansion House speech.

Economists are hoping tomorrow's speech will help them form a clearer idea of what the so-far reticent Mr Clarke has in mind for the UK economy.

He will be speaking after the release of May's industrial production figures. Manufacturing output is forecast to have risen marginally on the month. Another fall – following a 0.3 per cent month-on-month fall in April – would increase pressure on the new chancellor to ease monetary policy. But unemployment data later in the week is forecast to show only a slim rise in the May jobless total following three successive monthly falls.

Other economic statistics and events of the week follow. The figures in brackets are the median of economists' forecasts from MMS International.

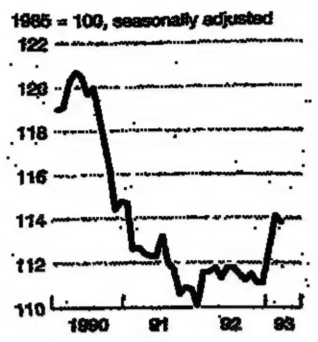
Today: UK, May producer prices index, input (down 0.2 per cent on month, up 7.1 per cent on year), output (up 0.2 per cent on month, up 3.9 per cent on year), excluding food, drink and tobacco (up 2.7 per cent on year). Spain, May consumer prices index (up 0.3 per cent on month, up 4.6 per cent on year). Sweden, May unemployment rate (7.8 per cent). Switzerland, Bank for International Settlements annual meeting in Basle. US, April business inventories (up 0.1 per cent); May Atlanta Fed Index. Hong Kong and Australia, markets closed for holiday.

Tomorrow: UK, Chancellor Kenneth Clarke delivers Mansion House pre-Budget speech in London; June CBI distributive trades survey published; April manufacturing output (up 0.3 per cent on month, 2.1 per cent on year), industrial production (up 0.2 per cent on month). Finland, May CPI (up 2.6 per cent on year). US, May CPI (up 0.2 per cent), excluding food and energy (up 0.2 per cent), May real earnings; Q1 current account; June 1-10 auto sales (6.7m units), truck sales; Johnson Redbook. Canada, April building permits, April wage settlement increases (up 1 per cent). Japan, April machine orders excluding electricity and ships (down 13 per cent); May trade balance ($8.8bn surplus), May wholesale price index (down 0.2 per cent on month, 2.9 per cent on year). Australia, April housing finance.

Wednesday: UK, May retail sales (up 0.2 per cent on month, up 3.1 per cent on year), May PSBR (£5.2bn). US, May housing starts (1.28m), May building permits, May industrial production (up 0.2 per cent), May capacity utilisation (81.4 per cent). Japan, April industrial production, April shipments.

UK manufacturing output

1985 = 100, seasonally adjusted



Source: Datastream

Thursday: UK, May unemployment (up 6,500), average earnings (up 4 per cent), unit wage costs (down 2.5 per cent in latest three months), May retail prices index (up 0.4 per cent on month, 1.4 per cent on year), excluding mortgage interest payments (up 2.9 per cent on year). Germany, Bundesbank Council meeting in Frankfurt. Switzerland, Swiss National Bank Spring press conference. US, April merchandise trade ($8.5bn deficit), merchandise exports ($38.7bn), merchandise imports ($47.5bn); initial claims week ended June 12 (342,000); state benefits week ended June 5; Q1 revised productivity figures; June Philadelphia Fed Index; money supply data week ended June 7. Canada, April merchandise exports (up 0.4 per cent on month), merchandise imports (down 1.1 per cent), trade balance (C$900m), April manufacturing new orders (flat), manufacturing shipments (up 0.2 per cent on month).

Friday: UK, May M4 (up 0.3 per cent on month, 3.6 per cent on year), M4 lending (up £2bn), May net new commitments (£3.3bn). US, June Michigan sentiment. Canada, May CPI (up 0.2 per cent on month, 1.9 per cent on year). Australia, April export prices, April manufacturing prices.

During the week: Germany, May WPI (flat); March trade balance (DM1.7bn surplus), current account (DM4bn deficit), May M3 (up 6.8 per cent), May PPI(up 0.1 per cent on month, flat on year). Italy, April industrial production (down 2.5 per cent on year); April WPI (up 5.6 per cent on year), PPI (up 3.6 per cent on year). Spain, May M4 (up 5.2 per cent on year). Netherlands, May unemployment rate (5.3 per cent). Denmark, May CPI (up 0.7 per cent on month, up 1.1 per cent on year). Japan, Q1 GNP (up 2.1 per cent), May money supply, May broad liquidity.

Emma Tucker

RESULTS DUE

KENWOOD APPLIANCES, the domestic appliances company that floated last June and made a profits warning three months later, is expected to report preliminary pre-tax profits of about £9.5m today, up from £9.3m. Despite a better second half and the acquisition of Tricom in Hong Kong last November, earnings per share are unlikely to be ahead as significantly as expected by some at the float.

The City will be keen to have an update on the restructuring programme at FKI when the electrical engineering group reports annual results tomorrow. Mr Bob Beeston, chief executive, has seen FKI's share price nearly treble in value since he was brought in from BTR at the beginning of last year. Analysts, who expect pre-tax profits to have risen from £31m to about £37m, will also be interested in the state of the group's large US automotive market.

Granada, the leisure, television and computer services group, is expected to announce healthy pre-tax profits of about £67m for the 26 weeks to March 27. This will compare with £57m last time although that was for a 28-week period. Modest progress is expected in both rental and television with about £5m profit, against £4.3m, expected for computer services. Noting that investors were showing more interest in the leisure sector, Mr Bruce Jones, leisure analyst at stockbrokers Smith New Court, said they felt "comfortable" with Mr Gerry Robinson, chief executive.

NFC, the transport and logistics company, is set to report interim profits on Wednesday of about £40m, virtually unchanged from a year ago. Analysts will be watching for further signs of growth from its US logistics business. They will also want to see the effects of the sale in January of the company's waste management division. The sale will depress the transport division's profits, but reduce group interest costs over the year.

Dawson International is due to report its results for the year to March 31 on Thursday. One of Britain's biggest clothing manufacturers, it is expected to double profits to £32.5m. Earnings will grow to 13p (10.4p) per share.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Agricultural Mortgage Corp. 10¼% Db. 1992/95 £5.125
BankAmerica $0.35
Coats Viyella Fin. 7¾% Gtd. Rd. Cv. Pf. 2004 7.25p
Conversion 9½% 2002 £4.75
DKB Asia Fltg/Fxd. Rate Gtd. Nts. Dec.2001 $2150.19
Eaton Fin. 12½% Un. Ln. 2014 £6.25
Headlam 1.85p
Hickson Intl. 5.15p
Honeywell $0.2225
Keystone Inv. 5p
Ladbroke 5¼% Sb. Cv. Bd. 2004 £51.25
MB-Caradon 5.8p
Municipality Fin. 9½% Gtd. Nts. 1997 £92.50
NEC 7% Bd. 1998 Y175000.0
Nippon Seiko 7.2% Bd. 1998 Y720000.0
Osaka Gas 7% Nts. 1998 Y175000.0
Pearson 10½% Bd. 2008 £105.0
Quarto 3.75875p
Royal Bk. of Can. 8⅜% Dep. Nts. 1993 $418.75
Royal Ins. 7¼% Cv. Sb. Bd. 2007 £183.12
Sapporo Brews. Fltg. Rate Nts. 1997 Y913889.0
Sumitomo Realty & Dev. 8% Nts. 1996 Y720000.0
Time Warner $0.08
Tokyo Elect. Power 10¼% Nts. 2001 C$105.0
Total B FF10.50

■ TOMORROW
AECI 5.5% Gross Cm. Pf. R0.055
Albert Fisher Fin. 5⅞% Gtd. Rd. Cv. Pf. 2004 £29.375
Am. Barrick Res. $0.04
Atlantic Richfield $1.375
Atlas Conv. Equipment 15p
Bankers Tst. New York Fltg. Rate Sb. Nts. 2000 $127.78
Bear Sterns Fltg. Rate Nts. Sep.1994 $87.85
Bradford & Bingley Bldg. Scty. Fltg. Rate Nts. 1995 £154.38
Brit. Airways 10⅞% Bd. 2008 £108.75
Brunswick Corp. $0.11
Caisse Nationale des Autoroutes 16% Gtd. Ln. 2006 £400.0
CarnaudMetalbox FF4.0
CSX Corp. $0.38
Dairy Farm Int. (Bermuda) $0.039
Do. (Hong Kong) HK$0.30
Do. (Jersey) $0.039
Dana Corp. $0.40
Dover Corp. $0.22
English China Clays 13.4p
Fairey 6.9p
Flash Ser.P Sec. Fltg. Rate Nts. 1993 $920.00
Do. Sec. 8% Nts. 1993 Y8000.0
FPL $0.62
Hammerson Prop. 6.5p
Do. A (Lim/Vtg) 6.5p
Investors Cap. Tst. 5¼% Cm. Pf. £1.8375
Keppel Corp. S$0.11
Kobe Steel 5.1% Bd. 2000 Y143083.0
Lawson Mardon Class A Sb. Vtg. C$0.10
Limited Inc. $0.09
Louisiana Land & Exp. $0.25
Marubeni Int. Fin. Stppd. Coupon Bd. 1995 Y7000000.0
Midland Bank Und. Fltg. Rate Prim. Cap. Nts. (Ser.3) $191.48
Natl. Mutual Fin. 10% Nts. 1993 £100.0
Pacer Systems $0.035
Pandick Press Int. Fin. 7% Cv. Sb. Bd. 1998 $35.0
Pennzoil $0.75
Rugby Gtd. Fltg. Rate Nts. June 1997 $13333.81
Richards Grp. 2.75p
Royal Bk. of Can. Fltg. Rate Db. 2085 $87.85
Royal Bk. of Scot. Und. Fltg. Rate Prim. Cap. Nts. $195.90
St. Lawrence & Ottawa Railway 4% Stg. 1st. Mtg. Bd. £1.00
Sotheby's Class A Lim/Vtg. $0.15
Svensk Exportkredit 12% Nts. 1994 £120.0
Tenneco 10¾% Gtd. Ext. Nts. 1990/95 $107.50
Thomson Corp. $0.113
Trinova Corp. $0.17
Utd. Biscuits 8% Db. 1993/98 £4.0
Wagon Indl. Cv. Ptg. Pf. 3.625p
Wells Fargo Fltg. Rate Sb. Nts. 1994 $134.17
Whirlpool Corp. $0.305

■ WEDNESDAY JUNE 16
Abbey Natl. Treasury 10⅝% Bd. 1993 C$106.25
Avonmore Foods IR1.85p
Brit. & American Film 8.25p
Federal Business Dev. Bk. 8¾% Nts. June 1993 C$87.50
Hafslund Nycomed A NKr2.20
Do. B NKr 2.20
Jardine Strategic (Bermuda) $0.077
Do. (Jersey) $0.077
Lasmo 9½% Nts. 1999 £475.0
Leeds Permanent Bldg. Scty. Fltg. Rate Nts. 1998 £154.38
Lloyds Bk. Ser.C Var. Rate Sb. Nts. 1998 £168.56
Santander Fin. Issuances Sb. Unv. Var. Rate Nts. $2595.49
Scotland Int. Fin. 14¼% Gtd. Fxd/Fltg. Rate Nts. 1995 $26.54
Southeast Banking Fltg. Rate Sb. Nts. 1995 $265.42
Sumitomo Chemical Fltg. Rate Nts. 1997 Y88166.0

■ THURSDAY JUNE 17
Bournemouth Water 86p
Christiania Bk. 8% Sb. Nts. 1998 $800.0
Elys (Wimbledon) 14.5p
English Nat. Inv. 11.2p
Do. Defd. 8.75p
Gowrings 1p
Hankyu Corp. Fltg. Rate Nts. 1996 Y91121.0
Jardine Matheson (Bermuda) $0.15
Do. (Jersey) $0.15
London & Manchester 8.6p
Marubeni Corp. 4.3% Nts. 1997 Y115861.0
Do. 4.8% Nts. 1998 Y123944.0
P & O 4¾% Cv. Bd. 2002 £47.50
Pfizer $0.42
Senior Eng. 9¾% Un. Ln. 1994/99 £4.6875
Shiloh 2.025p
Toto 5.7% Bd. 1997 Y570000.0
West Hampshire Water 56p
Do. N/Vtg. 36p

■ FRIDAY JUNE 18
Abbott Mead Vickers 6.3p
Aquarius Plus Collared Sec. Fltg. rate Nts. 2000 $70 83
Aspen Comms. 2.9p
Bank Leumi (UK) Und. Prim. Cap. Fltg. Rate Nts. $25.28
Bracken Mines R0.40
Euromoney Publctns. 10.5p
Gold Int. Fin. Tranche B Fltg. Rate Nts. 2002 Y1025416.0
Govett Strategic Inv. 2.85p
Hampden 0.8p
Holt (Joseph) 31p
Italian Int. Bank Sb. Fltg. Rate Nts. 1998 $159.09
Japan Airlines 4.6% Bd. March 1998 Y125222.0
Do. 4.6% Bd. June 1998 Y125222.0
Kinross Mines R1.20
Lowland Inv. 3.2p
Mitsui Toatsu Chems. 5.8% Bd. 1996 Y580000.0
Do. 5.85% Bd. 1997 Y585000.0
Nationwide Bldg. Scty. Sb. Fltg. Rate Nts. 2000 £173.92
Rand Mines Props. R0.30
River & Mercantile Geared Cap. & Inc. Tst. 1999 Inc. 3.325p
Sappi R0.60
Sumitomo Metal Inds. 5.65% Bd. 1996 Y565000.0
Do. 5.75% Bd. 1997 Y575000.0
Unisel Gold Mines R0.20
Welkom Gold R0.94
Winkelhaak Mines R0.70
Yasuda Tst. Asia Pacific Fltg/Fxd. Rate Gtd. Nts. 2002 $2300.28
Yasuda Tst. & Banking (Luxembourg) Fltg. Rate Gtd. Nts. 2000 $104.90

■ SATURDAY JUNE 19
Campari Intl. 8.75p
Densitron Intl. 1p

■ SUNDAY JUNE 20
Mount Charlotte Invs. 10⅞% 1st Mtg. Db. 2014 £5.375

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Abbott Mead Vickers, Inn on the Park, Hamilton Place, W., 11.00
Alexandra Workwear, Institute of Directors, 116, Pall Mall, S.W., 10.00
Hammerson Property, 100, Park Lane, W., 12.00
Ladbroke Group, Hilton Hotel, Park Lane, W., 11.00
BOARD MEETINGS:
Finals:
BET
Chillington Corp.
Foreign & Col. Smaller Co's
Kenwood Appliances
Interim:
Treatt

■ TOMORROW
COMPANY MEETINGS:
Bank of Scotland, The Mound, Edinburgh, 12.15
Bourne End Properties, CAP House, 9-12, Long Lane, E.C., 11.00
El Oro Mining & Expln., 41, Cheval Place, S.W., 11.30
English National Inv., 3, Finsbury Avenue, E.C., 12.00
Exploration Co., 41, Cheval Place, S.W., 11.15
Gartmore American Securities, 16-18, Monument Street, E.C., 12.30
Govett Oriental Inv. Trust, Painters Hall, 9, Little Trinity Lane, E.C., 12.00
Gowrings, Sandford Springs Golf Club, Wolverton, Hants., 10.00
Haden MacLellan, Great Fosters, Stroude Road, Egham, Surrey, 10.00
Helical Bar, 11-15, Farm Street, W., 11.30
Mowlem (John), Building Employers Confederation, Cavendish Conference Centre, 18-20, Duchess Mews, W., 12.00
Travis Perkins, Lord's Banqueting & Conference Centre, St. Johns Wood Road, N.W., 12.00
BOARD MEETINGS:
Finals:
Bradford Property Tst.
Channel Hldgs.
FKI
Manweb
Melville Street Invs.
Porter Chadburn
Volex
Wellman
Wessex Water
Interims:
Clyde Blowers
David Lloyd Leisure
London & Clydeside Hldgs.

■ WEDNESDAY JUNE 16
COMPANY MEETINGS:
Dencora, Waveney House Hotel, Puddingmoor, Beccles, Suffolk, 12.00
Herring Baker Harris, Saddlers House, Gutter Lane, E.C., 12.00
Holt (Joseph), Roebuck Hotel, 2, Church Road, Flixton, Manchester, 12.00
Hopkinsons Group, Copthorne Hotel, Clippers Quay, Salford Quays, Manchester, 11.30
Micro Focus Group, 26, West Street, Newbury, Berks., 12.00
Stilon, Holden Ford, Royton, Oldham, Lancs., 11.30
Tarmac, Hyde park Hotel, 66, Knightsbridge, S.W., 12.00
BOARD MEETINGS:
Finals:
London Scottish Bank
Mountview Estates
Portsmouth & S'land. News
Safeland
Stirling Group
Interims:
Chemring
Electra Inv. Trust
Granada
Turkey Trust

■ THURSDAY JUNE 17
COMPANY MEETINGS:
Contra-Cyclical Inv. Trust, Great Eastern Hotel, Liverpool Street, E.C., 12.00
Jermyn Inv., 3, Sesston Place, S.W., 12.00
Pasminco, 125, High Holborn, W.C., 11.30
Plasmec, Frensham Pond Hotel, Churt, Farnham, Surrey, 12.00
River & Mercantile Geared Cap. & Inc. Tst. 1999, New Connaught Rooms, Great Queen Street, W.C., 11.00
Slingsby (H.C.), Victoria Hotel, Bridge Street, Bradford, 10.30
Warner Howard, The Brewery, Chiswell Street, E.C., 12.00
BOARD MEETINGS:
Finals:
AAH Hldgs.
Brockhampton Hldgs.
Cater Allen
Chloride
Dart Group
Davenport Knitwear
Dawson Intl.
GEI Intl.
Hardy Oil & Gas
Locker (Thomas)
Oceana Cons.
Portsmouth Water
Ramco Oil Services
Regalian Properties
Severn Trent
South Wales Elect.
Southern Water
Interims:
Kleinwort Charter Inv. Tst.
River Plate & Gen. Inv. Tst.

■ FRIDAY JUNE 18
COMPANY MEETINGS:
Antofagasta Hldgs., Institute of Chartered Accountants, Moorgate Place, E.C., 11.00
City of Oxford Inv. Trust, 41, Tower Hill, E.C., 12.00
Jacks (William), Sunningdale Country Co., London Road, Sunningdale, Berks., 12.00
BOARD MEETINGS:
Finals:
Booth Inds.
Cambridge Water
Northern Investors
Swan (John)
Total Systems
Interims:
Electronic Data Processing
Grainger Trust
Henderson Strata Invs.

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

PARLIAMENTARY DIARY

■ TODAY
Commons: Questions to National Heritage ministers, Public Accounts Commission, Commons Commission and Commons Leader. Leasehold Reform, Housing and Urban Development Bill, Lords amendments. Representation of the People Bill, all stages.
Lords: Pensions Schemes (Northern Ireland) Bill, second reading. Crofters (Scotland) Bill, second reading. Scottish Land Court Bill, second reading. Education Bill, report. Osteopaths Bill, committee. Local Government (Overseas Assistance) Bill, committee. Local Government (Amendment) Bill, second reading.
Select Committees: Treasury and civil service – financial services deregulation. 4.15pm. Witnesses: Mr Andrew Large, chairman, Securities and Investments Board. Public accounts – grant-maintained schools. 4.30pm. Witness: Sir Geoffrey Holland, permanent secretary, department for education. Information – the parliamentary data and video network. 4.45pm. Witnesses: Mr Jeremy Bray MP, Sir David Mitchell MP.

■ TOMORROW
Commons: Education questions. 3.15pm Questions to the Prime Minister. Trade Union Reform and Employment Rights Bill, Lords amendments. Finance Bill, ways and means resolution.
Lords: Railways Bill, second reading. Northern Ireland (Emergency and Prevention of Terrorism Provisions) (Continuance) Order.

■ WEDNESDAY
Commons: Foreign Office questions. Trade Union Reform and Employment Rights Bill, end of debate on Lords amendments. House of Commons Disqualification Act 1975, schedule amendment.
Lords: Debate on changes in the countryside.
Select Committees: Foreign affairs – European council 21-22 June. 10.00am. Witness: Mr Douglas Hurd, foreign secretary. Parliamentary Commissioner for administration – report of the parliamentary commissioner. 10.15am. Witness: Mr William Reid, parliamentary commissioner for administration. Trade and industry – the competitiveness of Uk manufacturing industry. 10.30am. Witnesses: CBI, Federation of small businesses. Welsh affairs – rural housing. 10.30am. Witness: Mr Gwilym Jones, parliamentary under-secretary, welsh office. Transport – London's public transport capital requirements. 4.00pm. Witnesses: British Rail Network southeast, London buses Ltd, London underground, London regional passengers committee; Mr Steven Norris, transport minister. Employment – (1) work of the health and safety commission; (2)the management of redundancies. 4.15pm. Witnesses: (1)Sir John Cullen, chairman, health and safety commission and Mr J.D. Rimington, director-general, health and safety executive. (2)Mr Iain Vallance, chairman, British Telecommunications. Health – community supervision orders. 4.15pm. Witnesses: Mrs Virginia Bottomley, health secretary; Community psychiatric nurses association. Public accounts – centre for applied microbiology and research. 4.15pm. Witness: Mr Graham Hart, permanent secretary, department of health. Treasury and civil service – the role of the civil service. 4.15pm. Witnesses: civil service commissioners, Professor Eric Caines. Home affairs – funding of political parties. 4.45pm. Witnesses: Sir Norman Fowler, Conservative party chairman, Mr Tim Smith, treasurer, Conservative party. Science and technology – translation of the science base into innovative and competitive technology. 4.45. Witnesses: department of employment officials. Joint committee on consolidation, etc, bills – (1) Lord chancellor's memorandum on the pension schemes (Northern Ireland) bill. (2) Crofters (Scotland) bill. (3) Scottish Land Court bill. 4.30pm. Witnesses: (1) Mr T. Erskine, office of legislative council, Belfast. (2&3) Mr F. Wallace, Scottish Law Commission.

■ THURSDAY
Commons: Treasury questions. 3.15pm Questions to the Prime Minister. Defence estimates debate, first of two days.
Lords: National Lottery Bill, committee. Debate on energy efficiency of buildings.
Select Committees: national heritage – the future of the BBC. 10.30am. Witnesses: Federation of Entertainment Unions; Independent Television Commission; Mr Chris Dunkley. Opposed bill committee – Greater Nottingham light rapid transit bill. 10.30am.

■ FRIDAY
Commons: Debate on Government strategy for science, engineering and technology.
Lords: Not sitting.

LEGAL NOTICES

Notice of Creditors' Meeting under Section 48(2) of the Insolvency Act 1986
Company No: 22956 Registered in England
Baddeley Brothers (London) Limited
Principal place of Business: 2/4 Boundary Street, London E2 7JE

NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at St Andrew's House, 20 St Andrew Street, London EC4A 3AY on 7 July 1993 at 11.00 am for the purpose of having laid before it a copy of the report prepared by the administrative receivers under Section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors by or under the Act.
A proxy form is enclosed. Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if:
(a) they have delivered to us at the address shown below, no later than noon on 6 July 1993, written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provision of Rule 3.11 of the Insolvency Rules 1986; and
(b) there has been lodged with us any proxy which the creditor intends to be used on his or her behalf.
Please note that the original proxy signed by or on behalf of the creditor must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.
Signed
Date: 8th June 1993
CJ Barlow & R M Addy
Joint Administrative Receivers
Coopers & Lybrand
St Andrew's House
20 St Andrew Street, London EC4A 3AY

CASE GROUP LIMITED (IN MEMBERS' VOLUNTARY LIQUIDATION)
TAKE NOTICE that on 16 November 1992 Mr Stephen Robert Edward Hancock of Price Waterhouse, Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT was appointed as the liquidator of Case Group Limited ("Case").
In 1988, Dowty Group PLC ("Dowty") made a takeover offer for Case ("Offer"). Under the Offer:
(1) For every 200 Case shares, Dowty offered 59 new Dowty ordinary shares and 133 Dowty 7% convertible redeemable preference shares; and
(2) A separate cash alternative for the Case shareholders to purchase the new Dowty ordinary shares at 190p per share. This cash alternative lapsed on 7 September 1988 or 14 days after the Dowty offer became unconditional.
The liquidator of Case now intends to apply to Court under Section 429 of the Companies Act 1985, to pay into Court the shares and cash which Case has been holding on trust for the shareholders of Case who did not accept or respond to the offer.
If you are one of the Case shareholders who did not accept or respond to the offer, you are hereby requested to notify Price Waterhouse (for the attention of Mr SRE Hancock) at Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT on or before 31 July 1993 of your interest, so that you may receive your entitlement. If you do not respond by that date the liquidator of Case will proceed with the lodgement as he sees fit in the circumstances, and you would then be unable to recover your entitlement without making your own application to the Court.

NOTICE OF ADMINISTRATION ORDER
NORTH STAFFS PIPE LINE LIMITED - IN ADMINISTRATION
Registered number: 00837715.
Nature of business:
Pipelayers. Trade classification: 23
Administration order made: 19 May 1993
John F Powell and Ian N Carruthers
Joint Administrators
(Office holder numbers 2695 and 6682)

COMPANY NOTICES

MANAGEMENT

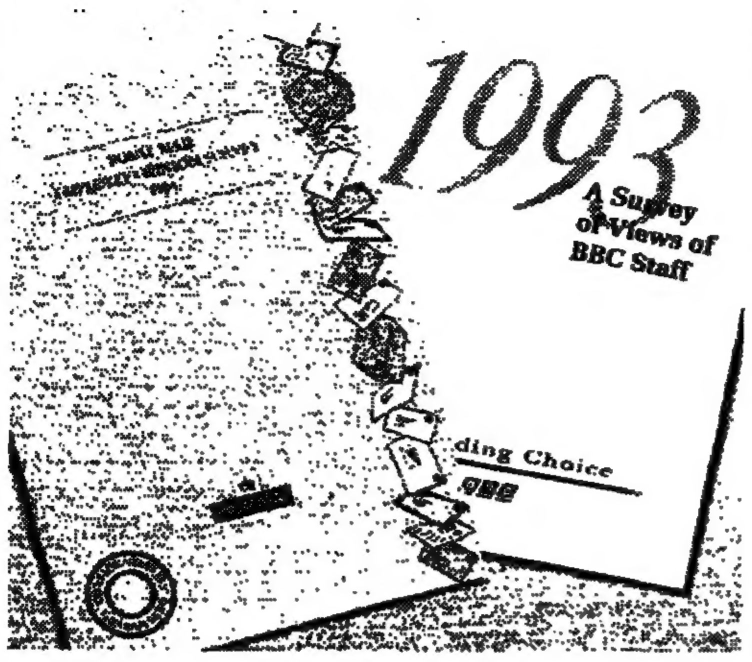
Staff surveys are increasingly popular, but can be fraught with pitfalls, writes **Diane Summers**

The right attitude

Royal Mail's 180,000 employees now know officially that they are a pretty miserable bunch. According to an internal employee attitude survey fed back to them this month, a record 70 per cent of them are unhappy at work.

Uncertainty over privatisation, reorganisation of the service, new technology and worries over job security – not to mention a 1.5 per cent ceiling on public sector pay this year – all contribute to rock-bottom morale.

Managers at Royal Mail, in common with those at British Telecom, which has had similar upheavals and similar employee attitude survey results, profess not to be surprised by the findings. At the same time, there is within both organisations a profound level of scepticism among staff about whether the results of the surveys will lead to any changes: questionnaire answers show that at BT only 16 per cent of staff were able to think of any improvements resulting from the previous year's survey; at Royal Mail, around half thought management would not act on the findings.



But in spite of this widespread scepticism and the predictability, in many cases, of results, the employee attitude survey industry has never been healthier. The BBC is one of the most recent additions to swell the ranks of those organisations now sending out employee attitude questionnaires. Other companies include IBM, Abbey National, Digital Equipment and Hoechst UK. A flourishing band of consultants and survey companies has grown up to service this fashionable growth area.

While companies such as IBM, where staff surveys have been conducted since 1963, make conscientious attempts to translate findings into action, other organisations may be wasting money on research – perhaps £20,000 a shot for a modest project in a medium-sized organisation – that merely raises expectations and is then shelved.

"Let's do an employee attitude survey" appears to be a reflex response by companies to a range of perceived problems, according to Bill Quirke, a consultant with London-based Synopsis Communication.

The first mistake companies make is to become immersed in technical matters such as questionnaire design, without being clear what the survey is for and what will be done with the results.

Typically, the decision to carry out an employee attitude survey will spring from a fundamental disagreement at board level about what is going on inside the company, he says: "One director will say that people are unhappy and are complaining – they don't understand the mission, they don't understand the restructuring. Another will say it's not that bad. What he really means is 'to hell with whether they're happy or not, we're in a recession' ".

At that point the decision is made to bring in a third party to establish the facts by conducting a survey. And so the process begins, based, essentially, on the kind of debate that is never going to get anywhere – how far companies should be "nice" to their employees.

The idea of worker happiness comes from an outdated, hierarchical view of work, claims Quirke. "People at the top tell people at the bottom to go and do the job, and then you check every now and then whether the natives are restless," he says. Indeed, employees may be fat and happy while their company is failing to adapt to new markets, processes or customer requirements, he adds.

Companies need a more hard-headed approach to what they are trying to find out, and why, he says. "People need to know where the organisation is going, they need to understand their local objectives and how they fit in, and they need to get regular feedback. Those are the things that should be tested."

Quality programmes, in particular, mean that the common existing model of communication – the person at the top shouts through a megaphone to the person at the bottom – is no longer appropriate.

The next commonly made mistake is to become obsessed with scores and comparisons with other companies, rather than looking at what the results mean and how far they fit in with the business needs of the organisation. Much of the time, admits Quirke, it is possible for a consultant to construct a report on the findings before carrying out the research and without knowing anything about the client's industry.

The Norm Report, as he calls it, would reach the following conclusions on communications, for example: most people prefer to hear things through their immediate boss; people are most interested in information about their own immediate work unit; managers want more information but, at the same time, complain about being deluged with paper; the grapevine is the most used, though least preferred, way of finding out about things.

There are even national norms for employee attitude survey scores, according to the International Survey Research organisation: Swiss employees are the most satisfied, followed by the Dutch. The British are the most dissatisfied, identifying least with their organisations and feeling most insecure in their jobs.

The next stage within most organisations, once the predictably uncomfortable results have been collected, is for collective gloom to set in. For some companies, the first time such an exercise is conducted will also be the last – even the results of a pilot may warn senior managers off the idea.

Employee attitude survey checklist

- Gain commitment of senior management, clarify objectives and define areas where company prepared to take action.
- Decide between census of employees – probably paper-based – and random sample – maybe face-to-face interviews.
- Conduct pilot.
- Design questionnaire – needs experienced help.
- Tell employees what is being done: the more internal publicity, the greater the chances of success.
- Guarantee confidentiality.
- Consider measures to improve response rate, for example, by holding supervised completion sessions in company time.
- If the survey involves face-to-face interviews, conduct with one or two employees at a time. Avoid group discussions – difficult to maintain confidentiality in groups and to enable everyone to have a say.
- Produce final report. Distil evidence, reach conclusions and put forward recommendations. Present to top management.
- Report back to employees with summary of main findings.
- Individual or group should be made responsible for action following survey findings; monitor progress.

Source: Institute of Personnel Management

A mindset to escape from the tiger

Bryan Webster offers an unconventional view

We need to face the unpalatable fact that our national management mindset is affecting the whole of our national performance. That mindset projects the manager as troubleshooter, problem-solver, dynamic decision-maker. It is responsible for our love of organisation charts and job descriptions for particular managers, so that we know who to blame if things go wrong.

It is underpinned by our ubiquitous appraisal and by our performance-related pay schemes.

Above all, there is our touching belief that we can improve our businesses by training managers – the Charter Initiative, MBAs and extremely expensive Executive Development Programmes.

While we are wasting our time and energy on such a management model they have discovered something different elsewhere.

The Japanese, for instance, have demonstrated that companies are not collections of managers, nor even of functions; they are combinations of interacting processes.

If these processes are understood, refined, controlled and continuously improved, goes their view, the organisation will achieve its goals.

So what can we learn? If our current management mindset is dragging us down, what will lift us up? The emerging management is organic rather than mechanical; rather than attempting to manipulate the ends, top management seeks to cultivate the capability of the company. We can think of this capability in three ways.

The first is process capability. Quality of product and service is achieved by controlling the interacting productive, business and management processes. Nissan have so developed process control that improvements of 0.6 of a second can now be picked up and implemented.

The second element is organisational capability.

It consists of obvious things such as, buildings, finance, technology, systems and people, and not so obvious, such as employee goodwill and behaviour, credibility with customers, market awareness, the ability of the organisation to learn and, of course, the directing of all these towards a common goal (management).

Organisational capability is what the Japanese are preserving when they hold on to their skilled people in a downturn, and what brings them running out of it.

The third element is personal capability. Everyone, everywhere must keep their face turned to the real world, and keep learning how to prosper in it.

In particular it means top management encouraging the awkward questions that challenge their own self satisfaction and so lead them to search for new learning and new answers.

The world's best companies are already well into the process capability method of management. Asea Brown Boveri, for instance, has cut its lead times by an average of 21 per cent and hopes to take them down to 50 per cent by the end of this year.

To achieve this Percy Barnevik, ABB's chief executive, has changed the role of his managers from "a combination of policemen and errand boys; now they act as support for the workers". And the workers are working at the processes.

This way of managing will become common in the next 10-20 years and those who wish to cling to the manager-dominated model should pay heed to the parable of the tiger, which is now fast becoming part of management folklore.

It tells of two hikers, who find themselves facing a man-eating tiger. One pulls out a pair of trainers and puts them on. "You must be joking," says his companion, "you can't outrun a tiger." "No," he replies, "but I can outrun you."

I first heard the story six years ago, from a chief executive in one of Britain's top companies. He thought it was funny.

But in those six years his company lost its profitability, much of its market and two-thirds of its workforce. Finally, it dispensed with his services.

He was nearer the tiger than he thought.

The author is an independent management counsellor.

Check your organisation's mindset by giving this case study to your managers:

You discover customers have been told that a particular service is available from you at half its real cost. You track the mistake to a particular section. The company value statement *says it will honour its* word, but to provide the service at the cost quoted will seriously affect quarterly profits in your unit. What is to be done?

A manager in a manager-centred company will:
- **tell staff to stop the service;**
- **drop everything to find out what has gone wrong;**
- **hold meetings to get to the bottom of it;**
- **decide what went wrong; find who is to blame;**
- **if another area is to blame, sort out the manager (unless it is their own boss);**
- **personally restart the service to show staff how it is to be done;**
- **if individuals are to blame, counsel them or give them a warning;**
- **congratulate self on decisive management.**

A manager in a process-centred company will:
- **ask staff to advise customers that service has been withdrawn;**
- **ask team to investigate, then correct factors within their control;**
- **review team's findings;**
- **review the process by which policies are implemented at unit level;**
- **set right factors external to team; systems, resources, communication;**
- **confirm new procedures and train everyone;**
- **take team through the incident specifically to learn lessons;**
- **give individual help where needed.**

CONSTRUCTION CONTRACTS

London airport scheme

BOVIS PROGRAM MANAGEMENT (BPM) is providing construction management and design expertise on the building of BAA's new 400,000 sq ft Terminal 1 airside development at Heathrow.

BPM, a division of the P&O company Bovis Construction, and architects Richard Rogers Partnership have been brought together for the first time in this way to create the facility which is due for a phased completion by December 1995.

There are three different aspects to the project. A new £20m purpose-built flight connections centre aims to attract transfer passengers by offering tailor-made services under one roof.

An enlarged international departure lounge at Terminal 1 will enable passengers to take advantage of catering areas and 56,000 sq ft of retail space. The lounge will have seating accommodation for 1,400 and first class and business class airline lounges.

The third improvement involves the replacement of the baggage handling system with fully automated equipment which will include facilities for the handling and storage of transfer baggage. This will allow smooth handover from one airline to another and one terminal to another.

US highway

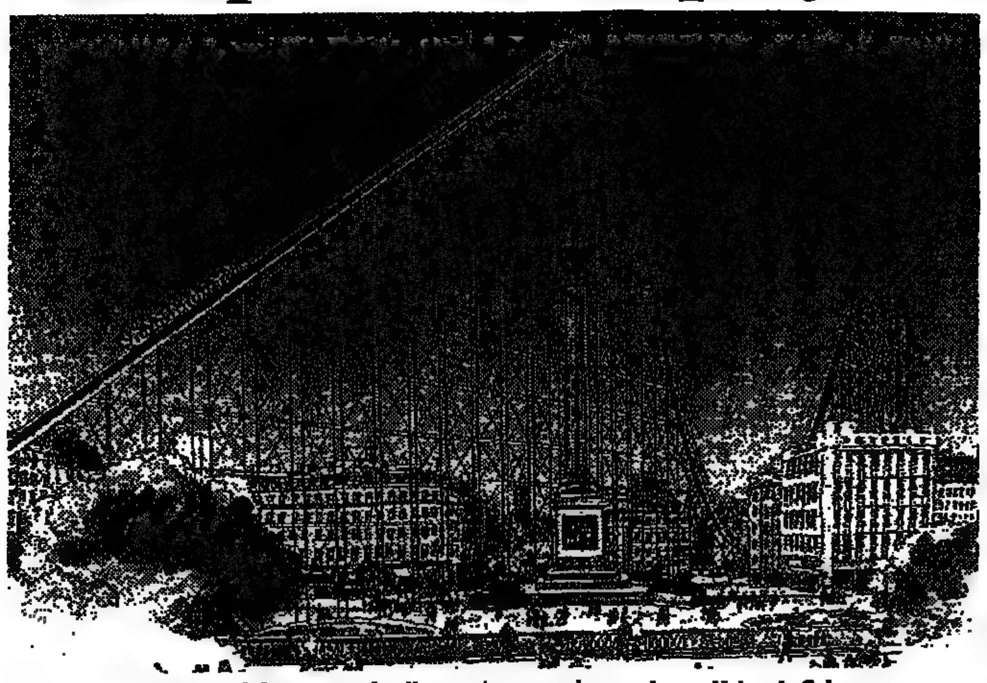
EVERED BARDON has been awarded an US$8.9m (£5.77m) contract to resurface an eight-mile section of Interstate 95 in Massachusetts.

Bardon Trimount will be prime contractor on the project, for which it will be supplying 140,000 tons of coated stone from its nearby coating plants.

British Library

SIR ROBERT McALPINE has been awarded the £4.3m contract for the construction of the structural frame on the next phase of the new British Library in St Pancras, London, for the Department of National Heritage. The contract is programmed for completion in 47 weeks.

Blackpool leisure project



An artist's impression of the proposed rollercoaster, superimposed over Nelson's Column

WATSON STEEL has won a £5.7m contract to supply steel for what is believed to be the world's highest rollercoaster, due to be built in Blackpool, Lancashire.

Working for Blackpool Pleasure Beach, Watson will supply and erect a total of 2,000 tonnes of structural steel. Also to be installed under the contract is a further 250 tonnes of tubular steel running track.

Fabrication will take place at Watson's Bolton factory during the summer months, with erection scheduled for a 10-week period commencing at the beginning of November, during BPB's close season. The steel work is to be erected on foundations completed at the beginning of the year by Shepherd Construction.

At its highest point, the rollercoaster will stand 235ft high, 65ft taller than London's Nelson's column.

From here, the drop has an angle of 65 degrees, which will allow cars to reach speeds of 85mph. The rollercoaster will run around BPB's 42-acre promenade site for just over a mile, and will be above all the existing rides.

Building distribution centres

TAYLOR WOODROW DESIGN BUILD is making a name for itself in the frozen and chilled distribution centre/warehouse market with three contracts worth over £30m in total.

The latest, for Iceland Frozen Foods, is the construction of an environmentally friendly building covering more than 25,000 sq metres.

Situated on 30 acres of former British Rail land on the west side of Swindon, off the Wootton Bassett Road, the centre will be divided into sections for frozen, chilled and ambient storage.

At Minworth in Birmingham, Taylor Woodrow Design Build is undertaking the design and construction of Cadbury's new automated chilled storage warehouse.

Covering over 35,000 sq metres the warehouse will accommodate 15 km of racking standing 15 metres high and be split into three units.

Taylor Woodrow Design Build's third contract was the recently completed fruit terminal at Southampton Docks.

Constructed for Associated British Ports and used by Geest, the new terminal covers 9,500 sq metres and has storage facilities capable of holding 27m bananas.

Land reclamation at Hong Kong bay

KIER HONG KONG, part of Kier International, has won a £25.5m reclamation and roadworks contract in Hong Kong's Belcher Bay let by the highways department of the Hong Kong government.

The project includes reclamation of 10.3 hectares of land, dredging and disposal of 1.2m cu metres of marine mud and filling with approximately 1.8m cu metres of marine sand.

Also included in the contract is the construction of about 813 metres of blockwall sea wall and approximately 122 metres of piled sea wall.

Roadworks comprise 14,000 sq metres of new roads including four new signalised junctions together with associated drainage and landscaping works.

PEOPLE

Hurd adviser crosses fence

The discreet world of the political lobbyists has recruited a fresh disciple. Edward Bickham, one of Foreign Secretary Douglas Hurd's most trusted advisers, has decided to cross the parliamentary divide and join Hill and Knowlton, one of the top three public affairs consultancies.

Bickham, 36, replaces Tom McNally, the former Labour MP and adviser to Jim Callaghan, who left in April to head the lobbying arm of Shandwick. Bickham joins early next month as managing director, public affairs and corporate policy.

Although Bickham's title suggests his brief will be somewhat wider than an old political hand like McNally, his arrival at Hill and Knowlton completes a series of high-profile changes at the top of an industry where success often depends on getting a client's ideas heard in the right places. At the end of 1992, Des Wilson, former campaign manager of the Liberal Democrats, joined Burston-Marsteller, the other big player.

It has long been rumoured that Hurd plans to quit politics before the next election. But Bickham, who has not ruled out standing for Parliament at some stage, stresses that his decision to leave Hurd's side does not mean his old boss will also head for the private sector shortly. Having been special adviser to the Home Secretary and in Northern Ireland, Bickham had never intended a second stint in Whitehall when he left to join British Satellite Broadcasting in 1988. But he was called back into service by Hurd at the time of the Gulf War and has acquired a reputation as one of the most effective of the current crop of parliamentary advisers.

Bickham differs from Sir Bernard Ingham, Lady Thatcher's former press secretary who is also on the Hill and Knowlton payroll, in that he is not an old-style political fixer. Instead he believes in knowing his way around the ever-changing regulatory undergrowth. Companies need to "anticipate trends in regulation when developing business plans rather than reacting late in the day in an atmosphere of crisis."

Non-executives

■ John Westhead, chief executive of Bowthorpe, has rejoined the board of Southern Water as a non-executive director after an absence of fifteen months.

The board of Bowthorpe had suggested, when Westhead was promoted from group managing director to chief executive at the beginning of 1992, that he should relinquish other commitments. Now that he has settled into that role, however, his fellow directors felt that the Southern position would bring "useful cross-fertilisation", said Martyn Webster, group managing director of Southern.

"I was upset when he first had to go. He is a very good non-executive director at the sharp end of British industry who commands quite a high reputation in the City."

Non-executive director Sir David Nicolson, having turned 70, stepped down from the Southern board in March.

■ Colin Phipps, chairman of Clyde Petroleum, has resigned as a non-executive director of Budgens, the grocery chain, after two years on the board. The company says that now it has completed its restructuring phase his job is over.

Phipps had been appointed as a representative of Gartmore when the then chairman and chief executive, John Fletcher, was forced out by a group of institutional investors in May 1991. Gartmore has since disposed of its shareholding.

Hans Reischl, chief executive of German supermarket chain Rewe, which has taken a minority stake in Budgens, recently went on to the board in a non-executive capacity.

■ Jack Mather, until recently chairman of NFC, at BLETCHLEY MOTOR GROUP.

■ John McGrath, at COOKSON GROUP.

■ Christopher Rodrigues, chief executive of Thomas Cook, at OWNERS ABROAD.

■ Alan Jones, at BRITISH VITA.

■ Howard Robinson, at S. LYLES.

■ Sir Malcolm Field, at SCOTTISH & NEWCASTLE.

■ Alan Fletcher, at South West Water.

■ David Allvey at McKECHNIE.

■ Nicholas Irens at SIMS FOOD.

■ Bill Blackburn and John Williams at CHELSEA BUILDING SOCIETY.

■ Bill Reid at JACQUES VERT.

■ Geoffrey John (pictured above) at MORLAND.

■ Sir Richard Lloyd, Rafe Clutton, and Thomas Manners have retired from LEGAL & GENERAL GROUP.

■ Martin Harris has retired from NATIONAL WESTMINSTER BANK.

■ Sir Eric Ash is to retire from BRITISH TELECOM.

■ Ian Butler has resigned from NURDIN & PEACOCK.

■ Kenneth Gould has retired from GOAL PETROLEUM.

■ Sir Mark Wrightson, at NEWMAN TONKS GROUP.

■ Sir David Nicolson has retired from LASMO.

IBJ's capital markets emphasis

Toshiki Tobe has been appointed chief executive of IBJ International, the London capital markets operation of the Industrial Bank of Japan, Japan's largest long-term credit bank.

He replaces Yoshio Osawa, who is returning to Tokyo this month to take up a position as general manager of the securities business. He will be appointed to the board at next month's annual general meeting.

Tobe has been based in London for 18 months, as managing director in charge of capital market operations. IBJ has a policy of creating an overlap between a current chief executive and his successor, unlike many Japanese institutions.

Tobe says the firm plans to strengthen its presence in the capital markets, including the derivatives side of the business. For example, IBJ will soon put traders on the floor of the London International Financial Futures & Options Exchange (Liffe.)

IBJ International has a staff of 300 in London, and is one of the most active Japanese financial institutions in the international capital markets. According to IFR Securities Data, which tracks bond financings, IBJ ranks 21st in the Eurobond league table, after Nomura, Daiwa and Nikko, but ahead of any other Japanese bank subsidiaries. The firm is not active in the equities business, from which the parent is excluded under Japanese law. IBJ also has a branch in London through which its corporate lending business is channelled.

■ John Newman, formerly a regional director of Hill Samuel Bank, has been appointed assistant general manager of CREDIT LYONNAIS UK.

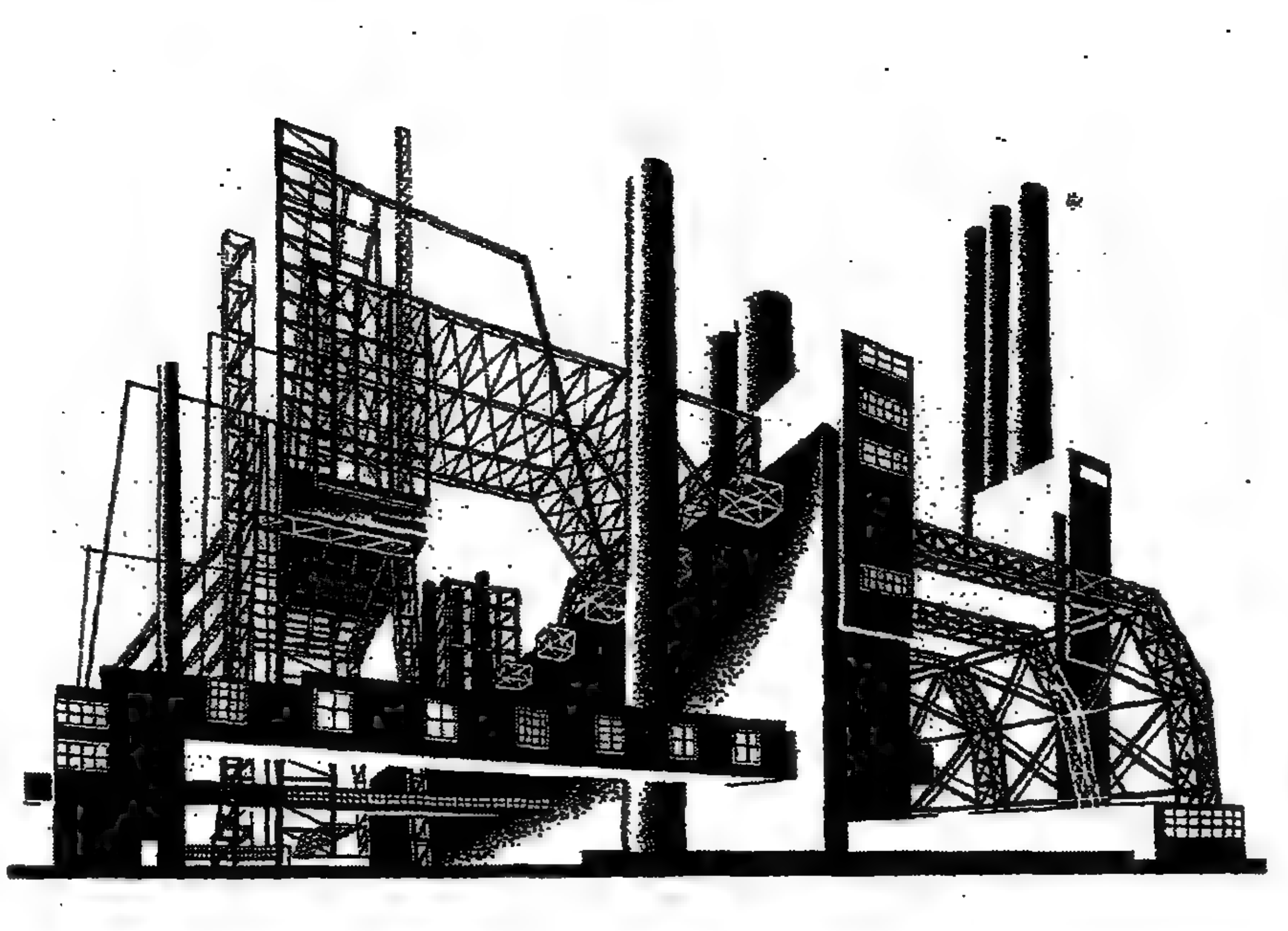
■ Richard Keatinge, is to rejoin BANK OF IRELAND GROUP as head of corporate finance after a period at Hardwicke.

■ David Deitch has been appointed a director in the foreign exchange division of CHASE INVESTMENT BANK.

■ Les Komaromy has been appointed marketing director of KEMPER INVESTMENT MANAGEMENT, the UK subsidiary of Kemper Financial Services.

Architecture/Colin Amery

Chernikov's visionary skills



Soviet Piranesi: architectural fantasy on an industrial theme

Iakov Chernikhov (1889-1951) was known as the Soviet Piranesi because of his visionary skills as an artist and draughtsman. His work was, until recently, relatively unknown despite the fact that he is clearly an important influence on contemporary architecture and design. He was one of the leaders of the Russian avant-garde – an architect, engineer, theorist and artist, who was forced by the mad dictates of Stalinism to lead an unfulfilled life.

The grandson of this great pioneer, Andrei Chernikhov, has established a foundation to promote interest in his grandfather's work and to encourage architectural experiments among the young. It is this foundation, with the International Academy of Architecture, that has organised the remarkable exhibition that has been seen in the US and is now showing in London until July 20 at The Architecture Foundation in Bury Street, London, S.W.1. (In *The Economist* Building).

This is one of the best architectural exhibitions to be seen anywhere at the moment. It shows the intense vision of one man at one period of time – the 1920s and 1930s. Since the collapse of communism, it has become clear that there is endless work for architectural historians to do in eastern Europe - reassessing the roots of modernism is merely one task that has to be done. But the Chernikhov exhibition can be appreciated on its own terms as the work of an intensely talented and technically skilled architect who was a major part of that group in Russia that really were the advance guard of modernism.

The exhibition is called "Architecture of Fantasy." The title is in some ways misleading. Although Chernikhov, along with many other talented architects and artists was unable to practice during the Stalinist regime, he cannot have seen his work as merely fantasy. His drawings are philosophical statements about structure, geometry and machines that could have been built.

He was born in 1889 in Pavlovgrad in the Ukraine, and initially he studied painting at the Odessa College of Art and later the Academy of Arts in Leningrad. There are some highly respectable "old Master" drawings from that period of his life in the exhibition. He moved on to the study of architecture in 1916 and, because he had to earn his living while studying (not to mention the disruptive effects of the Russian Revolution), he did not graduate until 1925.

His early professional life was devoted to teaching and writing. He founded the Research and Experimental Laboratory of Architectural Forms and Methods and Graphic Art in Leningrad in 1928 where he was to teach both drawing from nature and abstract composition. His "fantasies" were a part of his system of teaching, showing the infinite possibilities of geometry and the skilled use of drawing instruments. He also developed, as we can see from the exhibition, a marvellous colour sense. The exhibition includes photographs of the classes at the school with rows of uniformed pupils drawing away under the manic gaze of Chernikhov.

His work exemplifies the innovative approach to architecture of the Constructivists of the 1920s, but because Chernikhov was so well versed in engineering and perspective his architecture is more expressive than the work of his contemporaries. It is not possible in the London show to compare his work to Melnikov and Leonidov – as it was in the Paris/Moscow exhibition that I recall at the PompidouCentre in 1979. They were both more original form makers, and had more variety in their work.

What is fascinating to witness is the sense of power behind these drawings. They do represent a movement and in Soviet Russia in the 1920's the new architecture was powerful enough to convince serious classical architects to join the experiment and produce work that bridged the frontiers between classicism and modernism. It would be interesting to see an exhibition of the work of architects like Zholtovsky and Fomin who were geniuses at bringing all the forces of history to their work.

There is one particularly moving exhibit that architects here might read with profit – especially those members of the RIBA who complain of government interference in the profession. In 1935 Chernikhov's books were banned from state libraries and his teaching was curtailed. He wrote a moving letter to Joseph Stalin begging for an end to his intellectual exile. Needless to say Chernikhov never received an answer. He attempted in some of his work to adjust to the megalomania of Stalin's architectural taste. His extremely monumental designs inspired by the official desire for memorials to the Second World War are literally amazing. Even more disturbing are his drawings for the "Palaces of Communism" series that portray with uncanny prescience the giant prisons of Stalin's long tyranny.These are poignant and powerful works that show the intensity of his visual imagination.

What is shown at the Architecture Foundation is only a fragment of his output. He left behind some 780 drawings and 50 books, and he clearly deserves a thorough biography and scholarly analysis of his important work. This display is an important glimpse into a world of architectural creation that most of us had almost forgotten.

Sponsorship

Decisions based on hard data

One reason why arts sponsorship has been slow to develop from a chairman's perk to a vital component in a company's strategic marketing programme is the lack of research into its effectiveness. This is not surprising. It can cost more to assess scientifically the impact of sponsorship on an arts event than the funding of the event itself.

This is changing. Sponsorship is moving inexorably under the control of marketing directors who tend to make spending decisions on the basis of hard data. So when Clerical Medical, the insurance company, considered increasing its commitment to arts sponsorship, it thought it essential first to invest in research.

A £15,000 survey into the composition of the audience for the arts, and its views on arts sponsorship, has not come up with anything sensational but its very existence has been enough to sway the board. This year Clerical Medical spent under £100,000 on arts sponsorship, mainly on music at the Bath Festival. In the future, while its competitors concentrate on sport, it plans to reach its potential customers by investing more heavily in the arts.

The research, which is based on responses from over 8,000 individuals, confirms that the audience for the arts is just what a company wants - affluent, middle aged, and committed. Arts lovers prefer music and the theatre way above other arts forms and see little wrong with sponsorship. They think sponsors should concentrate on trying to bring seat prices down, and their main complaint is that sponsors grab the best seats.

In the main the research is positive. The findings would perhaps deter companies from supporting the experimental and the avant-garde, but suggest that the Royal Opera House is on the right lines in its attempt to get prospective sponsors to help by subsidising seat prices rather than new productions.

ABSA played its part in producing the research and will supply copies of the findings for £150 to its members and £75 for arts organisations.

The Business Sponsorship Incentive Scheme, under which £4.5m. of Government money is available this year to match new, and existing, sponsorships by companies, has gone international. British Council offices in 98 countries can now apply for grants, up to a collective limit of £250,000.

The first beneficiary was the Birmingham Royal Ballet. Its visit to Thailand was sponsored by Jaguar to the value of £15,000 and the Bangkok office of the British Council secured an additional £3,750 for the trip through the BSIS scheme. As an established sponsor Jaguar only qualified for a 1:4 bonus.

The British Council is selling hard to business the commercial spin-offs that can follow from sponsoring British arts companies on overseas trips, especially the opportunities to meet key foreign politicians. Its enterprise is paying off. Last year it brought in £6.8m. in sponsorship, beating its target by £1m.. And most of this sum, £4.9m. in fact, fostered arts events rather than exchanges and training.

In the current economic climate it is getting harder to persuade business to invest in the arts and there are numerous arts companies, including the RSC, the CBSO, and the National Theatre, still seeking sponsors for projected overseas tours this year. But the Council has raised its target for 1993-94 and has high hopes of a major splash in Los Angeles in late 1994.

Glaxo has put up £36,000 for a three-year programme to give the children of Ealing, where it is a major employer, their first taste of opera. Pavilion Opera performed Donizetti's *L'Elisir d'amore* in four schools during May, and 1500 children were involved in linked projects and as an enraptured audience.

The recently established Pavilion Opera Educational Trust (POET) is now talking to the mayors of Westminster and Tower Hamlets in the expectation of finding local companies who will support performances in these boroughs in future years. POET chairman Geoffrey Simmonds is seeking £75,000 a year which will finance twelve school performances by the chamber opera troupe.

Vanity Fair, the magazine, is spending the little money it has this year for promotion on helping the arts in an unconventional way: by underwriting parties. On Thursday 250 friends of the Serpentine Gallery gathered, with the Princess of Wales, for a gala dinner designed to raise around £250,000 towards the Serpentine's £1.6m. rebuilding appeal. The party went all the better thanks to a £30,000 contribution from Vanity Fair.

Earlier this year Vanity Fair paid for the launch party for the movie *Damage*. It feels that the participants at these glitzy charity events are its type of reader. It also helps that the Serpentine is enhancing the gala with a three-day show of works by artists who have enjoyed exhibitions in its bucolic setting over the decades, artists like Hockney, Moore, Rego, Hitchens, and others.

As usual the London International Festival of Theatre (LIFT), which opened yesterday, has been well backed by sponsors. The key new sponsor is BT which, in its desire to get involved with community projects, is supporting two local carnivals, one based around Vietnamese newcomers to Greenwich, the other a Trinidadian masquerade in Spitalfields. In addition it is backing LIFT's first major educational programme in which overseas artists train London school children in their skills.

Cable & Wireless, Enterprise Oil, Routledge, and British Gas are also involved, and Cameron Mackintosh is financing a visit by the Hanoi Water Puppets, the first Vietnamese arts group to tour the UK, in recognition of the Vietnamese contribution to his hit musical, *Miss Saigon*.

There may be no Glyndebourne Festival in Sussex this year (the theatre is being totally rebuilt) but the nine concerts arranged by Glyndebourne with the LPO on London's South Bank this summer are virtually sold out, and the first, a concert performance of *Béatrice et Bénédict* on June 21st, is to be sponsored by the Banque Nationale de Paris.

Antony Thorncroft

Aldeburgh Festival/Richard Fairman

Sanctuary kept at arm's length

The month of June increasingly looks like Benjamin Britten month. Riding on the coat-tails of the Aldeburgh Festival, the record companies tend to save up any Britten and this year promise to excel themselves: the first ever recording of *Gloriana*, brand new sets of *Peter Grimes* and *A Midsummer Night's Dream*, and a re-issue of *Owen Wingrave* are all on the point of reaching the shops.

Since Britten's death the guardians of the Aldeburgh Festival have kept its focus on new music, looking forwards rather than looking back. Any danger of the festival turning into merely a sanctuary for Britten's music has been kept at arm's length, but when one of his works threatens to become an extinct species, there is every reason to revive it. The last-named of the operas above, *Owen Wingrave*, is rarely seen. On Friday it formed the opening night of this year's festival.

Ideally, the opera would have been staged. (One fully staged production a year, besides any other considerations, would give audiences a stronger incentive to make the journey out to the East Anglia fens.) *Owen Wingrave*, though written specifically as a television opera, comes across surprisingly well in the theatre, as we know from the 1973 Royal Opera production. But, for whatever reason, it was only given a concert performance here.

★

Like the original television film (recently repeated by the BBC), this opera is in black-and-white. There is none of the ambivalence between good and evil so cleverly exploited by Britten in his best works, only a confrontation between what is right (the young, pacifist Owen) and wrong (his crusty, aristocratic, military family).

Where the stage production gained was in the music's powerful evocation of atmosphere, the suffocatingly musty air of the Wingrave family seat. Britten was an experienced writer for the stage by this time and knew how to compose a mood right through an opera by basing all the music on a small number of recognisable intervals and harmonies.

That was lost in this concert performance. So, more crucially, was a lot of the text. The London Sinfonietta, playing from the stage, was too dominant a presence; the resonant acoustic of the Maltings did the rest. I doubt that there was much the conductor, Oliver Knussen, could have done, but it was only in the later, less heavily-scored scenes that the opera began to exert a dramatic grip.

In the title-role David Wilson-Johnson made Owen a less blameless spokesman for peace than usual by introducing a touch of irresponsibility and wilful rebellion. It was good to see John Shirley-Quirk as Coyle, the only survivor here from the original cast. Otherwise the singers made an impression according to how many of the words they could get across, John Graham-Hall as Lechmere and Mary King as Kate being the most successful.

Even now there are Britten premieres that the festival is managing to dig out. After *Owen Wingrave* the audience could drive to Aldeburgh Parish Church for a late-night recital featuring the Haffner Wind Ensemble directed by Nicholas Daniel in two movements of a youthful Britten Wind Sextet – lively music, with a fine ear for sound and echoes of various other composers' styles. The enigmatic second movement did not make it clear whether Britten regarded the piece as finished.

On Saturday the main event was a piano recital by Peter Serkin at the Maltings. This was a classic Aldeburgh event. The programme preceded Bach's *Goldberg Variations* with a sequence of short works which the pianist has commissioned from leading contemporary composers.

A time-limit of six minutes seems to have been set, but some participants – like Knussen in his Variations, Op.24 – and Alexander Goehr with "+...in real time 1+" - subdivided their allotted time into even smaller units. Both pieces were inventive, vividly-characterised; the Goehr looked a beast to play.

★

In his *Rain Tree Sketch* and its successor, *Rain Tree Sketch II*, Toru Takemitsu preferred short mood-paintings, near-Impressionist in their sensitivity and delicacy, a surface of flickering activity over a deep underlying calm.

Takemitsu is the festival's featured composer this year and the programme of his music includes three film events. The festival ends on 27 June with a repeat performance of *Owen Wingrave*.

Owen Wingrave sponsored by The Chapman Trust

Dylan in one of his more bullish moods

If you're Irish a Fleadh is a party; if you're not Irish (perhaps even if you are) it is falling flat on your face in a muddy field, making contact with a rich undergrowth of detritus, and trying to avoid the rain while waiting for some warmth, some raising of the spirits, by musicians from over 30 predominantly Irish bands.

Good things have been spoken of this annual hooley in north London, but Saturday's event was only fitfully enjoyable. An English summer was at its bleakest and Finsbury Park lacks natural grandeur. Even an appearance by that well-known Irishman, Bob O'Dylan, failed to ignite the 20,000-odd rather forlorn spectators.

Dylan was in one of his more bullish moods. He tried. And though not by nature an Irishman you could somehow recall hearing his voice, that confident cranking of a musical saw, replicated by some lone Paddy in the bar of a Camden Town pub on a Saturday night. On my last viewing of perhaps the most creative pop artist ever he was invisible, skulking in the shadows of a stage and content with a perverse mockery of his talent. On Saturday he was up front, blowing his harp with enthusiasm and duelling with his guitarist in extrovert, imaginatively embroidered versions of "All Along the Watchtower" and "Memphis Blues Again".

The slower songs were less successful, enabling the man to take refuge in his legend, but Dylan still sounds miraculously contemporary. He can find relevance and rhythms in his music with the right aura to make a damp depressing evening an occasion.

The Fleadh is a wonderful reminder of the Irish contribution to popular music. Before Dylan on the main stage we had Irish high spirits, with Hothouse Flowers, and Irish melancholy, with Van Morrison. Hothouse Flowers lifted the crowd and got the arms waving. They may lack the character and originality to become mega but as a snapshot for the 21st century of what a mainstream pop band used to be like on stage they could hardly be bettered.

Morrison just goes on and on, his jangly, jig-like band acting as the ideal counter point to his resonant, lived in, voice. He was in restrained, spiritual mood, with songs like "The Garden" rather than the old belters. He came across as a genuine echo of an Irishman far from home.

Antony Thorncroft

INTERNATIONAL ARTS GUIDE

■ BERLIN

OPERA/DANCE

Staatsoper unter den Linden Tonight: Il barbiere di Siviglia. Tomorrow: Daniele Gatti conducts first night of Augusto Fernandes' new production of Rigoletto, with a cast led by Giancarlo Pasquetto, Ruth Ann Swenson and Vicente Ombuena (repeated June 17, 20, 23, 25, 29, July 2). Wed and Fri: Gluck's Iphigénie en Aulis. Sat: Swan Lake (200 4762)

Deutsche Oper Tonight: Götz Friedrich in conversation. Wed and Sat: Alfredo Kraus and Lucia Aliberti sing opera arias and duets. Thurs: Don Giovanni. Fri and Sun: Aida. July 1, 2, 3: Peter Schaufuss production of Sleeping Beauty (341 0249)

CONCERTS

Philharmonie Tonight: Günter Wand conducts Berlin Radio Symphony Orchestra in works by Mozart and Schubert, with piano soloist Maria Tipo. Tomorrow, Wed, Thurs: Seiji Ozawa conducts Berlin Philharmonic Orchestra in works by Schumann and Richard Strauss with piano soloist Maria Joao Pires. Sun: Ozawa conducts open-air concert at Waldbühne (2548 8232)

Schauspielhaus Tomorrow: Jiri Kout conducts Orchestra of the Deutche Oper in works by Richard Strauss and Schubert. Wed: Ulrich Backofen conducts Estonian State Symphony Orchestra in Berwald, Pärt, Sinding, Svendsen and Sibelius. Thurs: Ludwig Güttler Wind Ensemble. Sat and Sun: John Nelson conducts Berlin Radio Orchestra and Chorus in Gorecki and Walton (2090 2156)

THEATRE

A new production of Shakespeare's A Midsummer Night's Dream has just opened at Schiller Theater, directed by Hans Neuenfels. The same company stages Stephen Pollakoff's Strawberry Fields, first night Sat at Werkstatt (312 6505). A new production of Kleist's Amphitryon, directed by Jürgen Gosch, can be seen at Deutsches Theater (2844 1225). The new Marlene Dietrich musical runs daily except Mon at Theater am Kurfürstendamm (300 6000). Porgy and Bess runs at Theater des Westens till June 27 (3190 3193)

● Tickets and information for theatre, revues, concerts and nightclub shows available from City Center Theater und Konzertkasse, Kurfürstendamm 16 (tel 882 6563 fax 882 6567) and Theaterkasse im Europa-Center (tel 261 7051 fax 261 9286)

■ NEW YORK

THEATRE

● Angels in America - Millenium Approaches: the first part of Tony Kushner's epic, freewheeling play about gay life, Aids, Reagan-era politics and Mormonism. Not to be missed (Walter Kerr, 219 West 48th St, 239 6200)

● The Who's Tommy: a stunning stage adaptation of the classic 1969 rock opera, a collaboration between its original author, Pete Townshend, and director Des McAnuff (St James, 246 West 44th St, 239 6200)

● Later Life: A.R.Gurney's widely-acclaimed new comedy about a man and woman who meet after a 30-year separation (Playwrights Horizons, 416 West 42nd St, 279 4200)

● The Sisters Rosensweig: Wendy Wasserstein's play, a comedy with serious undertones, about the reunion of three American Jewish sisters in London (Ethel Barrymore, 243 West 47th St, 239 6200)

● Oleanna: David Mamet's powerful drama about political correctness and sexual harassment (Orpheum, 126 Second Ave at 8th St, 307 4100)

● Fool Moon: a comedy with physical humour, chaos and music, written by and starring David Shiner and Bill Irwin (Richard Rodgers Theatre, 226 West 46th St, 307 4100)

● Someone Who'll Watch Over Me: Frank McGuinness's drama about three Western hostages in Beirut, starring Michael York, Stephen Rea and Chuck Cooper (Booth, 222 West 45th St, 239 6200)

● Crazy for You: inspired Gershwin musical comedy (Shubert, 225 West 44th St, 239 6200)

MUSIC/DANCE

State Theater New York City Ballet's Balanchine Celebration runs daily except Mon till June 27. This week's repertory focuses on works of the 1970s, including Stravinsky Violin Concerto, Sonatine, Le Tombeau de Couperin and Ballo della Regina (870 5570)

Avery Fisher Hall Wed, Thurs, Fri, Sat: Leonard Slatkin conducts New York Philharmonic Orchestra in an all-Bernstein programme (875 5030). Kurt Masur conducts the orchestra in a six-concert Brahms and Schumann series at Carnegie Hall between July 14 and 29, with soloists including Garrick Ohlsson and Shlomo Mintz (247 7800)

■ PARIS

DANCE

● Britain's Royal Ballet opens a two-week season tomorrow at Théâtre des Champs-Elysées, the company's first visit to Paris for 40 years. Repertory includes four Kenneth MacMillan ballets, David Bintley's Still Life at the Penguin Cafe, Balanchine's Ballet Imperial and Anthony Dowell's production of Swan Lake. Daily except Mon till June 27 (4952 5050)

● Tanztheater Wuppertal brings two Pina Bausch programmes to Théâtre de la Ville over the next two weeks. The first programme, Tanzabend II (1991), can be seen tomorrow, Wed, Fri and Sat. The second, featuring Rite of Spring (1975) and Cafe Müller (1978), opens next Tues (4274 2277)

● Ballet de l'Opéra de Paris has two final performances each at Palais Garnier of two different versions of Giselle. Tonight and Wed is the romantic version staged by Patrice Bart and Eugene Polyakov, a revival of their 1991 production based on the choreography of Jean Coralli and Jules Perrot for the work's premiere 150 years ago. Tomorrow and Thurs, the company presents Mats Ek's 20th century version, staged for the first time at the Opéra and conducted by Richard Bonynge. June 24-July 10: Balanchine/Robbins production (4742 5371)

● June 22-26 at Châtelet: Frankfurt Ballet in OPERA

Opéra Bastille Tonight: Myung-Whun Chung conducts first night of Jose Luis Gomez's new production of Carmen, designed by Jean-Paul Chambas and Jacques Schmidt, with Beatrice Uria-Monzon, Barry McCauley and Barseg Tumanyan. Sat: Julius Rudel conducts revival of Jorge Lavelli's production of Faust, with Giuseppe Sabbatini, James Morris and Nancy Gustafson. Both productions run till mid-July (4473 1300)

Châtelet Tomorrow, Thurs: John Eliot Gardiner conducts English Baroque Soloists and Monteverdi Choir in Jean-Louis Thamin's new production of Le nozze di Figaro, with Bryn Terfel, Rodney Gilfrey, Hillevi Martinpelto and Alison Hagley (4028 2840)

Opéra Comique Tomorrow: William Christie conducts Les Arts Florissants in first of 12 performances of Marc-Antoine Charpentier's Médée, staged by Jean-Marie Villégier. Last performance June 30 (4286 8883)

CONCERTS

Tonight at Cirque d'Hiver: José van Dam sings opera arias with Orchestre National d'Ile de France, conducted by Jacques Mercier (4387 9143). Tomorrow at Saint-Denis Basilique: Jean-Claude Malgoire conducts sacred music by André Campra (4243 7772). Wed at Opéra Bastille: members of the Opéra orchestra play chamber music by Britten and Milhaud (4473 1300). Fri at Salle Pleyel: Eliahu Inbal conducts Orchestre Philharmonique de Radio France in Rakhmaninov's Second Piano Concerto (Bruno Leonardo Gelber) and Shostakovich's Fifth Symphony (4561 0630). Sun morning at Théâtre des Champs-Elysées : Christian Zacharias gives a Schubert piano recital (4952 5050). June 28 at Châtelet ; Boulez conducts LSO. June 29: Rattle conducts CBSO (4028 2840)

JAZZ/CABARET

Lionel Hampton Jazz Club Blues guitarist and singer Joe Louis Walker and the Bosstalkers open a two-week residency tonight. Music from 22.30 (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

Bastille Studio The last of this season's Carte blanche jazz series takes place on Fri at 18.30, when clarinettist Louis Sclavis is joined by guitarist Marc Ducret and bassist Bruno Chevillon (4473 1300)

THEATRE

● The Pelican: a rare Ibsen, directed by Alain Milianti. Daily except Mon till July 4 (Odéon Théâtre de l'Europe 4441 3636)

● Mein Kampf: Jorge Lavelli directs George Tabori's farce about Hitler. Till June 27 (Théâtre national de la Colline 4366 4360)

● The Taming of the Shrew: Jérôme Savary's Shakespeare production starring Jacques Weber and Christine Boisson. Daily except Sat, Sun and Mon till July 4 (Théâtre national de Chaillot 4727 8115)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(All times are Central European Time)

MONDAY TO THURSDAY Super Channel: European Business Today 0730; 2230
Monday Super Channel: West of Moscow 1230.
Super Channel: Financial Times Reports 0630
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Thursday Sky News: Financial Times Reports 2030; 0130
Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
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Financing the welfare state

THE DEBATE over UK welfare spending is taking place in a time-honoured muddle of secret bilateral negotiation, leak and panic. A more reasoned examination is needed to determine what the state should be doing for its citizens in the 21st century, and how this can be financed.

Although prompted by the enfeebled condition of the public finances, this is a debate that would be needed even if the fiscal position were healthy. Demographic pressures mean that current spending commitments are unsustainable in the medium term; meanwhile changing lifestyles and individual tastes and aspirations make a separate case for a more varied pattern of provision.

The starting point should be to revisit the principles behind the welfare state, originally set up to protect those who, through poverty, illness, unemployment or old age, could not help themselves. To achieve these aims, it provided a cradle-to-grave social security system, a national health service, low-rent housing and free state education. The universal provision of health and social security reflected the circumstances of British post-war society in which all but the wealthiest needed such support. The solidarity of wartime experience also gave resonance to the idea of a welfare state into which all contributed and out of which all drew.

That principle of social solidarity remains important. Any welfare system must command the support of those who contribute to it as well as those who most need its help. But economic growth has reduced the overlap between these two groups. An increasing proportion of people can provide pensions, health care, housing and education for themselves. There remains a large minority who depend on the safety net of the welfare state. Yet paradoxically, it is often the middle classes who get most out of the welfare state, leaving too little for those who lack alternative means. Today, universality is both unaffordable and undesirable.

Right balance

The question which must be asked in every decade is whether the balance between collective and individual provision is right. A London School of Economics study estimates that over 60 per cent of the taxes paid by the average person is returned in various benefits (the rest goes in redistribution). The welfare state acts as a savings bank, with people paying in when times are good and drawing out in times of need. More of this savings bank function could easily, with appropriate regulation, be undertaken by the individual through private provision.

For some welfare services, however, efficiency may be best served by maintaining a role for the state. In health, for example, international experience suggests that some sort of state role is essential to bear down on the overall bill and ensure cost-sharing between different groups. But even in the health service it is clear that many people want and would be prepared to pay for premium levels of service; this does not mean they wish to see the NHS destroyed.

User charges

User charges also have a greater role to play in paying for public expenditure which confers economic advantage on the recipients. The planned expansion in higher education will need a greater contribution from students, with fees being repaid through a graduate tax. Investment in roads might be financed by higher petrol taxes paid by those using them. And London First, the business consortium, has suggested that improvements in London's transport infrastructure could be partly financed by a levy on businesses in the capital.

Such moves involve a degree of hypothecation – of earmarking revenues for particular purposes. A pamphlet published today by Demos, a new think-tank, suggests much greater use of hypothecation to "reconnect taxation", so that voters can see where their taxes are going. It also advocates referendums to allow voters to choose appropriate tax levels locally to pay for services such as health or public transport.

There are dangers in such an approach, such as the loss of necessary flexibility to switch funds between programmes and the tonic it might give to special interest groups. Badly structured local referendums could also encourage the wealthy to migrate to the low-tax suburbs, as in the US, leaving a weakened tax base incapable of dealing with the problems of the inner cities. But the Demos pamphlet provokes exactly the sort of longer-term thinking which is missing from the current political debate. Decisions made and unmade amid fiscal crises suggest to voters that the entire issue of reforming the welfare state is itself a crisis. It is not.

An orderly modernisation of the welfare state is desirable as well as necessary if people are to plan their lives around reasonable expectations of what they must provide for themselves.

Business ethics and China

FOREIGN investment is pouring into China. As the reports on page 2 indicate, China's growth offers such promise that businesses have to consider the opportunities. The risks include huge unknowns. How will the country be governed after the octogenarian leadership disappears? To what extent will economic reform bring political change, and will this cause instability? For how long is China's economy doomed to a lurching boom-bust cycle?

There is, however, a further question. Is it morally defensible for businesses to seek profit in a country still firmly controlled by a Communist party which ruthlessly and shamelessly stamps upon its people? This is the government which showed in Tiananmen Square four years ago that it was prepared to stop at nothing to hold onto power. Millions of people languish in its labour camps, the products of their labour often sold abroad.

The issue should not be brushed aside as a concern of politicians, but not of business. Human rights are a matter for each individual. The decisions of each company's directors matter.

The strongest argument for participation in China's boom is that the contact now occurring daily between ordinary Chinese and thousands of foreign business people is a potent agent encouraging stable economic and political development from the inside. Western business practices and ethics are being communicated inside China as a practical matter, not as part of a sermon. The growth of private enterprise and individual expression is being fostered as values encouraged by state control wither. This is the "peaceful evolution" the Communist hardliners fear.

Such changes occur only gradually and can be frustrated. But consider the risks, both for a billion Chinese and for the world, of chaotic governmental collapse similar to that in the former Soviet bloc. The world cannot expect western-style democracy suddenly to emerge in China. It is more realistic to expect slow progress towards greater pluralism in government – and it is in the interests of the rest of the world that change occurs in a reasonably calm atmosphere.

The opening of China's economy is bringing broader political and social changes. The monolith is breaking down. Yet it is an over-simplification to suggest that the party's new dogma – the socialist market economy – is simply capitalism by another name. Businesses negotiating joint ventures are usually dealing directly with official bodies, and bureaucrats still control the supply of many essential inputs. The success of a venture depends on having good connections within the system.

The moral question is, therefore, not easy to answer. Putting sound business principles into practice is the best foundation for assessing investment in China. Experience shows that the successful investments are those which the foreigner thoroughly investigates and carefully oversees. First-hand scrutiny of a venture is not only to be recommended on business grounds, but it should also be used to satisfy the investor that it does not bring involvement in unacceptable practices such as prison labour. Companies, such as Levi Strauss, which have chosen to reject involvement in China because of the country's human rights record, are entitled to respect. Such decisions are, however, part of a carefully positioned corporate image and as such do not necessarily apply to others.

Foreign business presence in China is part of the west's overall policy of engaging in dialogue at every level, seeking to foster stable economic development while at the same time pressing China to conform to international standards of behaviour. Companies which do take the plunge deserve the support of their governments.

The US defence industry is undergoing rapid change to adapt to its role in the post-cold war world, says **David White**

Survival of the slimmest

A lonesome superpower in a world without other superpowers, the US is grappling with a new defence dilemma: how to spend less on weapons and still sustain the industrial and technological capabilities that lie behind its unquestioned military supremacy.

As long as the cold war lasted, defence spending was high enough for this hardly to be an issue. But the question is in sharp relief now that the Clinton administration has committed itself explicitly to a policy of protecting the "defence industrial base", from submarines to military satellites.

The US defence industry, with 2.75m employees, is already undergoing significant changes to contend with the shrinking home market. In today's dollars, the US was spending $120bn a year in 1985 procuring military hardware. The figure for the 1994 fiscal year, starting in October, is just $45.5bn.

In the past year, Martin Marietta, the missile, space and electronics group, has taken over General Electric's aerospace business; Hughes, part of General Motors, has absorbed General Dynamics' missile activities; Loral, which had already bought Ford Motor's aerospace division, has also swallowed the LTV missile business; McDonnell Douglas has put its helicopter and laser operations up for disposal; and General Dynamics has gone on to sell its electronics operation to the Carlyle group and its military aircraft division – maker of the F-16 – to Lockheed.

Not persuaded by the idea of "conversion", General Dynamics has chosen to become, instead of a $10bn-a-year defence company, a $3.5bn-a-year defence company.

"I would guess by the end of this century we'll see an industry that has maybe a third of the number of competitors in each category as there are now," says Mr Norman Augustine, chairman of Martin Marietta. "There has to be a consolidation." In some sectors, he says, it may not make sense to have competition at all.

The Pentagon has already indicated it plans to keep "one, not two" submarine production lines. US submarines, all nuclear-powered, are now built at General Dynamics' Electric Boat division at Groton, Connecticut, and at Tenneco's Newport News yard in Virginia. But current plans mean a gap of at least two years in building work before a new Centurion class comes on stream around the turn of the century.

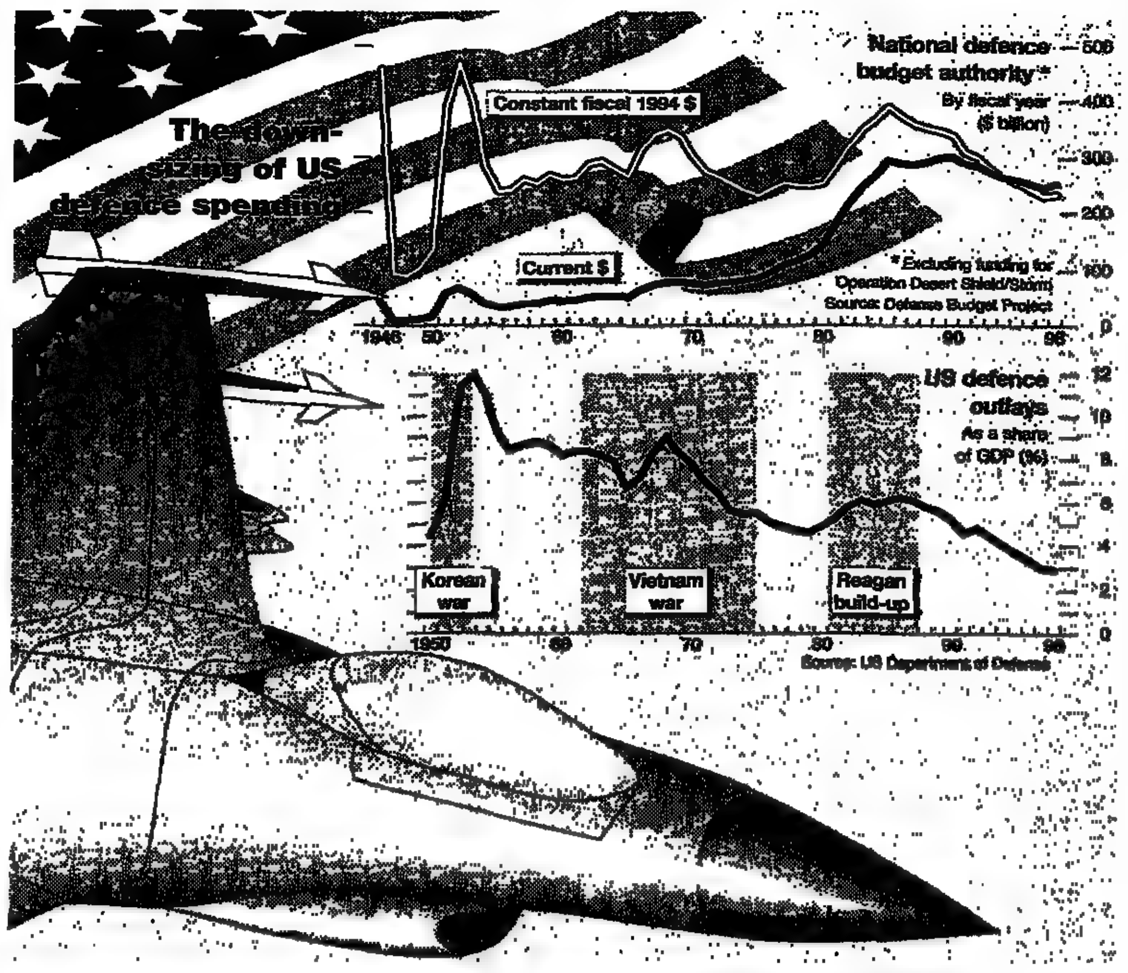
The question is whether it is worth ordering an extra submarine to keep one facility open, an effective subsidy of about $1.5bn a year. Against that has to be set the time it would take to reconstitute a production line once it had closed.

Mr John Deutch, under-secretary for acquisition, has promised special treatment for "unique" industries such as this, which have no overlap with civil business. Munitions are a similar case. "We strongly feel you need to build fences around them, protect them and nourish them," Mr Deutch told a recent congressional sub-committee.

In combat aircraft, a new shape is emerging in the industry, with just two companies – McDonnell Douglas and Lockheed – taking primary roles in designing and manufacturing fighters. The past few months, in which Lockheed has taken over the mile-long F-16 assembly line at Fort Worth, Texas, have "fundamentally transformed the landscape for military aircraft in the US", according Mr Dan Tellep, Lockheed's chairman and chief executive.

At least two new fighters are expected to survive an urgent Pentagon rethink on tactical aircraft requirements. The US air force and US navy have no fewer than four projects under way. Putting all of them into production would break the budget.

Priority looks likely to go to the new top-of-the-range fighter, the Lockheed-led F-22 – although probably in reduced numbers – and a new navy variant of McDonnell Douglas's F/A-18 Hornet. These are the projects most vital for both companies. Other plans for a sophisticated new navy strike aircraft and a multi-role successor to the F-16 may be put off until well into the next century.



The verdict is expected to be the first result from a so-called bottom-up review, due by late summer, into the full range of US defence requirements.

The new Pentagon team has taken on a big task – especially since it is still only part of a team. Many of the important civilian posts at the department are still unfilled, and only a handful of those named have been confirmed by the Senate. Almost five months into the administration there is still an air of improvisation. People dealing with the Pentagon find it exasperating. Mr Lawrence Korb, who was an assistant secretary of defence in the transition between the Carter and Reagan administrations and is now at the Brookings Institution think-tank in Washington, says: "This is the worst I've ever seen."

The Pentagon may be making some risky assumptions about what it can pay for within the budget

Lack of assistants is only one of the troubles complicating the task of Mr Les Aspin, defence secretary. Among the others are a heart problem, controversy over gay rights in the military, the aftermath of the 1991 naval flyers' sex rampage known as the Tailhook affair, and military discomfort over the government-wide pay freeze planned next year.

Mr Aspin's rushed first budget – which he calls "treading water" – is just a trimmed version of the one he inherited from the Bush administration. Apart from pruning funds for missile defences, the down-to-earth remnant of President Ronald Reagan's far-fetched Strategic Defence Initiative, it has maintained funding levels for all the main armament programmes. The big changes will come in the following three years.

The budget has already come down from over $300bn a year at the start of the decade to $263bn for the coming financial year. Under the final Bush plans this would have dropped, in today's dollars, to about $250bn in 1997. Clinton administration plans would cut this to about $230bn. It will be the least the US has spent on defence in real terms since the slack years of the late 1970s. As a share of US gross domestic product – about 3 per cent – it will be the lowest since the second world war, and half what it was in the mid-1980s.

The Pentagon may be making some risky assumptions about what it can pay for within that budget. About 40 per cent of the extra reductions foreseen under the latest Clinton plan come from lower inflation expectations, calculated at 2.5 per cent or less a year. Savings of about $18bn depend on making the pay freeze stick, with subsequent below-inflation pay increases. And the projections assume that plans carried over from the previous administration are matched by sufficient funding.

The new team already reckoned that it had inherited a shortfall of $10bn over the 1994-97 period and would need to make that amount of extra cuts, just to make the sums come out.

A panel of three outside experts, reporting back last month, found that the previous tenants had been over-optimistic about efficiency savings and had underestimated some other costs. The panel put the figure at up to $15bn. Mr Aspin, relieved that there was not a $100bn black hole as some had predicted, chose to add another $5bn to his spending plans from fiscal 1995, rather than order still more cuts.

In a trillion-dollar spending programme, such sums are a drop in the ocean. But Mr Korb at Brookings believes the amount of underfunding is closer to $25bn.

The experts' panel has also issued two sonorous warnings. One is that, in the early part of the next century, the US will have trouble paying for all the projects now in development. The other is that unit costs will rise. Declining defence business

'Dual use is a valid concept if not carried too far. You can have dual-use computers, but it's hard to think of a dual-use tank'

"is likely to lead to significant increases in the overhead rates of defence suppliers".

This, according to the report, "could lead to unexpected and largely unavoidable increases in existing programmes and elimination of a significant percentage of the cost savings that would ordinarily result from programme terminations".

When Martin Marietta's Mr Augustine was working at the Pentagon in the 1960s he had a theory about rising weapon costs. "I predicted that in the year 2054 one tactical aircraft would cost the whole defence budget," he says. "And we're right on track."

Defence manufacturers do not know yet how heavily the axe will fall, but know that it will fall mostly in their part of the budget. The "investment account", covering procurement, research and development and construction, and running for more than a decade at over $100bn a year, is expected to suffer a disproportionate share of cuts.

This is despite the likelihood that at least two equipment items not currently budgeted for will somehow be squeezed in: production of the innovative V-22 tilt-rotor transport aircraft for the Marines, a multi-billion-dollar project opposed by the last defence secretary, Mr Dick Cheney, but supported by Mr Bill Clinton during his presidential campaign; and maybe $3bn-$4bn for a third Seawolf submarine, just to keep production going.

Something else will have to give way. In the past the long US budgetary process has provided hope of resurrection for cancelled projects. But Dave McCurdy, a leading Democrat on the House Armed Services Committee, predicts: "A lot of the programmes are going to stay dead."

The US may also have to contemplate deeper cuts in the size of its forces, already reduced from 2.17m in 1987 to 1.73m. The new administration has indicated a target of 1.4m by 1997 instead of the 1.6m planned under President George Bush. But it may go further still in cutting troop numbers, rather than reduce forces' readiness. It would be easier to save money this way – maintaining ammunition and keeping battalions staffed is costly – but any step in that direction is taboo. Nobody wants to return to the "hollow forces" of the Carter era.

But, says Mr Augustine: "We also have to be careful we don't build a hollow industrial base." By this he means a large number of defence factories, producing at a low rate, doing little R&D and incurring high overheads. "I think that's a very real risk," he says.

The Pentagon's approach is to try to break down the barriers as much as possible between military and civil industry. "We cannot afford to have low rates of production in an entirely different industrial sector," says Mr Deutch.

Its "dual use" policy is meant to show wider economic benefits for the effort that goes into military technology. It has two sides. One is to focus on developing technologies that have commercial as well as military applications. The other is to take advantage of advances in civil technology, breaking down the tangle of regulations governing the military procurement process and buying products directly from the civil sector. This is expected to produce significant savings especially in electronics and software. Inquirers already have a freephone number to call: 1-800-DUAL USE.

Lockheed's Mr Tellep is cautious. "Dual use is a valid concept if not carried too far. You can have dual-use integrated circuits, dual-use computers, perhaps dual-use cockpit displays. It's hard to think of a dual-use tank."

But Mr Augustine can imagine the next generation of battle tank being designed to use a truck engine instead of the current Abrams tank's gas turbine. "Even though it's not the optimum tank, it may be the optimum tank you can produce."

To keep vital defence plants in business, the Pentagon could transfer maintenance work from state arsenals and dockyards to private-sector manufacturers.

It will also count more on government-led foreign military sales, regardless of arguments for restraint in regions such as the Middle East. A sharp decline in sales from the former Soviet Union has given the US overwhelming dominance in the world market, with arms transfer agreements worth almost $29bn last year.

Exports are already covering production gaps. The country's sole remaining tank production line, which General Dynamics operates at Lima, Ohio, now lives off Egyptian, Saudi and Kuwaiti contracts. Foreign sales used to be the icing on the cake for US arms companies. They have become a necessary part of the industrial strategy.

OBSERVER

Forked tongue

■ Over years of being bombarded with management jargon, such as "Soft-S fronted structure initiating", Observer has developed a rule of thumb. The only thing more dangerous than deciding that such gobbledegook can't have any meaning is to assume you know what it is.

Take for instance an upcoming phrase increasingly apt to be overheard in trendy executive suites: people being referred to as what sounds like "Hi Macs".

It would be totally mistaken to leap to the conclusion that those so described are either Americans with a cheerful hail-fellow-well-met disposition, or Scottish aristocrats. Nor are they being insultingly likened to putrid hamburgers.

Even seeing the phrase in its correct spelling – "High Machs" – can raise confusion, since it could be taken to mean folk apt to rush around at supersonic speeds.

But the real reference is to people who are highly Machiavellian in deceptively manipulating those around them. Psychologists test this characteristic by asking how far people agree with statements such as: "Never tell anyone the real reason you did something unless it's useful to do so."

Oh, and just in case anyone doesn't already know it, "Soft-S fronted structure initiating" means much the same thing: conning people into behaving as you wish.

Low life

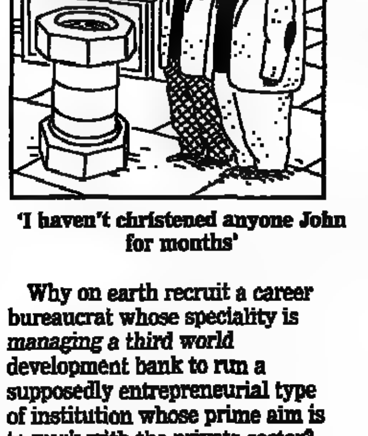
■ Time was when being a life president meant something. In return for giving up the keys to the chairman's suite, corporate grandees were rewarded with a title, secretaries, free lunches and continued use of chauffeur-driven limos.

But outgoing Hammerson chairman Sydney Mason, one of the grand old men of British property, is not even being allowed to keep his office when he inherits his title after Hammerson's annual meeting today. Indeed, he will be lucky if he can even find his name in future annual reports.

How he must envy Lord King, British Airways' newly created president. One of the rumoured perks of being an ex-chairman of a big airline is a lifetime's free flying on any of the world's main airlines.

Dream team

■ The behind-the-scenes politicking over Jacques Attali's future at the European Bank for Reconstruction and Development is degenerating into farce. Persuading the 59-year-old Ernie Stern, the respected number two at the World Bank, to take the less important number two job at the EBRD is almost as bad an idea as maintaining the status quo.



'I haven't christened anyone John for months'

Why on earth recruit a career bureaucrat whose speciality is managing a third world development bank to run a supposedly entrepreneurial type of institution whose prime aim is to work with the private sector? Sir William Ryrie, head of the World Bank's private sector arm, the International Finance Corporation, would seem better qualified.

Even worse, offering Stern a megabuck transfer fee is hardly the behaviour expected of an organisation already under censure for its profligacy.

Nevertheless if the EBRD's owners really are intent on bagging Stern, it ought surely to be part of a move to replace Attali. One possibility would be to recall Citicorp vice-chairman Onno Rudding, the former Dutch finance minister who wanted the EBRD job just as badly as Frère Jacques.

Then the EBRD might have the beginnings of a dream team.

Out of the hunt

■ When it comes to filling the chief executive's post at Barclays, the NatWest directors John Melbourn and John Tugwell may not be such hot tips as many in the City of London believe.

Earlier this year, Barclays asked executive searchers Spencer Stuart to draw up a short-list for the job. The headhunters, however, had a longstanding relationship with NatWest, and accordingly asked the established client if they could take on the Barclays assignment.

NatWest said it had no objection, so long as the headhunter did not feel it faced a conflict of interest – which of course was a warning to steer clear of NatWest staff when approaching candidates. Whereupon Spencer Stuart intimated that no one from the Action Bank would be on the list.

Oversight

■ Much tut-tutting is abuzz behind the BBC World Service microphones at the absence of former boss John Tusa's name from the Queen's Birthday honours list.

Having been denied a chance of even competing for the job of BBC director-general, Tusa has now failed to get the customary recognition for a job well done.

Former Bush House occupants, such as Gerard Mansell and Austen Kark, picked up CBEs, and some thought that Tusa might even have been in line for his K. During his six-year stint, the World Service won praise from listeners ranging from President Gorbachev to the Beirut hostages.

Admittedly, BBC-types have not been collecting quite so many honours under the new regime at Number 10. But Tusa has gone on to be master of a Cambridge College, and in his 32 years at the Beeb has probably done as much for public service broadcasting as the likes of recently knighted Michael Checkland, David Frost, and Robin Day.

Could it be that BBC chairman Duke Hussey, whose wife is the Queen's lady-in-waiting, somehow forgot to mention Tusa in dispatches?

Soft touch

■ The Bank for International Settlements, the central bankers' bank never known for subsidising lost causes, must have had a particularly good year. For the first time since records have been kept, journalists attending today's annual meeting are being allowed to phone home their reports without being charged for the use of the phone.

Rio finds a hero

A colourful mayor has brought hope to the city, says Christina Lamb

Anyone who does much business in third world cities can empathise with the British investment banker who recently hurled his telephone out of the window of his hotel on Copacabana beach after a tenth failed attempt to make a local call.

For residents of Rio de Janeiro, the ailing telephone system, while probably a minor problem, provides a fitting symbol for a city where everything is stretched beyond its limits.

The transport system is chaotic; sprawling slums deface hillsides; the bay is polluted almost beyond redemption; and chronic unemployment has pushed many into drugs and prostitution. Crime is so rampant that US State Department travel advisories tell tourists not to walk in the streets.

Just as many of Rio's 10m population were giving up hope, a civic leader has emerged, pledging to change all this. Since becoming mayor in January, Mr Cesar Maia, a left-wing economist from the Democratic Movement party (PMDB), has propelled Rio into national headlines. He has introduced the city's own time zone, and half-jokingly has threatened to issue its own currency to replace the inflation-racked cruzeiro. He closed off the main commercial thoroughfare for a week of open-air concerts by the Moscow Philharmonic and dressed up as a purple Ninja turtle to encourage children to have vaccinations.

Mr Maia believes such stunts are necessary to boost the city's self-confidence and give it a new image. "I want to show that Rio is different from other Latin American cities – it's playful and rebellious."

Behind all the promotion, however, Mr Maia is serious. His ultimate aim is to make Rio a "global city" modelled on Madrid and Barcelona, offering a range of facilities to attract business and tourists.

Initially he wants to bring in foreign and domestic investment to improve the city's infrastructure, and to privatise public services where possible, to leave the administration free to concentrate on "the big picture". By cracking down on crime and boosting its cultural offerings, he plans to capitalise on the city's spectacular beauty to make the city an international business centre.

To accomplish this, Mr Maia has assembled an internationally respected team of advisers, including Mr Marcilio Moreira Marques, a former federal economy minister, who is in charge of attracting foreign capital and aid; and Mr Eduardo Modiano, former head of Brazil's privatisation programme. His brief is to put roads, the marina and even the city's renowned carnival into private hands.

The mayor and his team face a staggering challenge. Urban planners reckon that Rio's population is three times greater than its housing, infrastructure and employment base can support. More than 1,500 slums and irregular settlements house a third of its residents.

Evidence of the lack of investment in Rio's infrastructure is abundant. Huge pot-

Initially Mr Maia wants to attract investment to improve the city's infrastructure

holes in the streets contribute to frequent traffic accidents. Giant pits stand as grim reminders that the city went bankrupt in the late 1980s halfway through building a metro system.

Rio's decline can be traced to 1960 when Brasilia became the capital of Brazil. Since then its traditional shipbuilding industry has collapsed and its importance as a port dwindled. As unemployment rose, crime surged. Businesses moved to Sao Paulo, and tourism slumped. Unemployment and crime in turn rose still higher. The syndrome has intensified since the national economy fell into recession in 1989.

It was the issue of law and order that carried Mr Maia to power. When the Earth Summit took place in Rio last June he was lagging in the polls. But the tight security surrounding the conference showed local people how pleasant Rio could be if crime was contained. Afterwards, Mr Maia's ratings rocketed when he said he would use the army if necessary to make Rio safe.

To help stem the fall in tourism, which has dropped 70 per cent since 1989, he has created a special force of undercover "tourist" police. Dressed in T-shirts and Bermuda shorts, its members travel in beach buggies and on jet-skis.

Mr Philip Carruthers, head of the Rio hotel association, says results are already being seen in terms of fewer tourist muggings. Encouraged by the new anti-crime mood, a Rio judge has imprisoned 14 of the city's main crime bosses, who are under investigation for alleged involvement in arms and drug trafficking. The state prosecutor is investigating 15 senior policemen for "illicit enrichment".

To improve business facilities, Mr Maia has secured the city's first important investment commitment in decades. Embratel, the state telecommunications company, has selected Rio as the site for Latin America's first Teleport – a sophisticated communications centre which will update the city's telephone system as well as offer office space equipped with satellite technology. Embratel is currently looking for private investors and multilateral loans to help finance the $1bn project.

But Mr Maia's main focus is on culture. "I see culture as part of economic policy," the mayor says. "To make Rio work, we need to make it a special place to visit. Top executives do not go to New York just for business – they go to enjoy its cultural offerings."

Arguing that the city's natural beauty is an economic asset which must be protected, Mr Maia has sent in bulldozers to "remove" slum dwellings from richer areas. Such actions, while applauded by business men and hoteliers, leave him open to charges from representatives of the slum-dwellers that he is "governing for the rich". The mayor counters that his administration is the first to have provided regular public services such as rubbish collection in slum areas.

The collapse this month of a hillside slum in heavy rain and the gunpoint robbery of a visiting American pop group at the airport show how far Rio has to go before it again merits the title "Marvellous City". Rio has not yet decided whether its new mayor is a prankster or a genius. But there is a new mood of optimism which could be the first step to recovery.

Too high, too low, or just about right

Hugo Dixon examines the debate over profit levels earned by the UK's privatised utilities

Are Britain's privatised utilities making excess profits?

The question, debated since BT was privatised in 1984, has been brought to a head by the current Monopolies and Mergers Commission investigation of British Gas. The probe was triggered mainly by the inability of the company to agree with Ofgas, its regulator, what level of profits was reasonable.

A dispute over profits is also simmering between Ofwat and the water industry. The water regulator has embarked on an elaborate examination of profitability for a review next year of the industry's charges.

The government originally rejected profit controls when privatisations began in 1984 and opted for price caps. The idea was that caps would encourage efficiency as companies would be able to keep the extra profits from cost-cutting. But it became apparent that price caps, reviewed every four or five years, could not be set without reference to profits.

Defining a benchmark for a reasonable level of profits is far from easy. Crude profit figures in themselves prove nothing, as large companies need larger profits than small companies to reimburse greater shareholder investment.

Profit increases by utilities also prove little. Last week the airports group BAA, Anglian Water, Northumbrian Water, and three electricity companies – PowerGen, National Grid and Scottish Hydro-Electric – reported higher profits, but the figures still begged the question of whether levels were too high, too low or about right.

The way regulators, utilities and the MMC answer this question is by calculating the "cost of capital" – defined as the minimum a company must pay to raise funds from investors. If a company's return on assets is consistently below its cost of capital, it will be unable to raise new funds. If it is higher, customers are being charged more than necessary.

Applying this theory in practice runs into numerous complexities. Moreover, the utilities and their regulators have produced widely divergent figures of the cost of capital.

Part of the explanation for the differing figures lies in the utilities' interest in proving their cost of capital is high: that way, they believe, the regulators will allow them to make higher profits. Similarly, regulators, as consumer champions, have an incentive to keep prices as low as possible, although this is tempered by their duty to ensure the utilities can finance themselves.

Utilities: finding a fair profits formula

Companies reported so far this year	*Pre-tax profit £m	% increase (decrease)	**Share price rise since flotation %	**FTSE100 rise since flotation %	***Current cost rate of return %
BT	1,972	(36)	216	142	n/a
British Gas	1,054	(38)	116	77	3.1
BAA	285	49	202	23	n/a
National Power	580	16	105	16	7.3
PowerGen	425	18	115	16	8.7
Scottish Power	297	14	32	13	6.0
Scottish Hydro-Electric	146	19	43	13	6.9
National Grid	533	7	n/a	n/a	7.5
Anglian Water	185	8	91	22	1.5
North West Water	247	7	85	22	1.1
South West Water	93	3	100	22	1.6
Thames Water	251	6	93	22	0.6
Yorkshire Water	139	12	100	22	0.8
Northumbrian Water	89	14	135	22	0.8

* Latest financial year ** As at June 10, 1993 *** Latest available figures

Source: FT and Warburg Securities

The dispute is fiercest in the gas industry, where Ofgas argues that the cost of capital is 2½ to 5 per cent after inflation, while British Gas believes it should be 6.7 per cent for existing assets and 10.8 per cent for new investment. "We are not earning enough. One of the reasons we went to the MMC was because our profits were being squeezed," says Mr Philip Rogerson, British Gas's finance director.

In the water industry, the discrepancy is also wide, with Ofwat arguing for a figure of 5 to 6 per cent and companies pushing for 9½ per cent. "The water companies need to be profitable to invest to meet new environmental standards," says Mr Paul Garrett of the Water Services Association, the industry trade body.

Observers not directly involved with either the utilities or their regulators tend to argue that the right figure for the cost of capital lies somewhere between the extremes. Mr Nigel Burton, an analyst at Warburg Securities, says, on average, it is something below 8 per cent. Mr Simon Taylor, an economist at J P Morgan, the investment bank, thinks the appropriate figure is 6 to 7 per cent for National Grid and higher for others.

Most regulators and utilities use the same academic model to calculate the cost of capital, called the capital asset pricing model. This takes the interest rate on a low-risk asset, such as index-linked gilts, and adds a premium to compensate for the greater riskiness of buying equities. An adjustment is then made to account for the fact that companies raise funds not just through issuing equity but also debt, which is cheaper.

The problem is that there is disagreement on all elements of the calculation: if different figures are put into the model, different figures emerge.

There is particular controversy over whether investments in utilities are risky. The regulators argue that they are less risky than investments in other businesses. The products they supply are basic necessities, not short-term fads, and their dominant market positions give them protection from competition. But the utilities say their businesses are high risk because of continual interference by regulators.

Even once a figure is decided for the cost of capital, there is still a question of how to value utilities' assets. This is because regulators wish to compare the cost of capital with profits as a percentage of company assets.

But valuing assets leads to another conundrum. Inflation rules out valuing assets according to how much was actually paid for them – the "historic cost" approach. But valuing them according to how much they would cost to replace – the "current cost" approach – can produce absurdly high figures.

The most extreme case is the water industry, which was sold to investors for £5.2bn but whose assets in current costs are valued at more than £100bn. If a 5 per cent cost of capital was applied, profits would need to be increased five-fold (see chart).

Ofwat and Ofgas have chosen to cut through this Gordian knot by differentiating between pre- and post-privatisation assets. Pre-privatisation assets are valued according to how much the shareholders paid at flotation, while post-privatisation assets are valued on a current cost basis.

But this is of little use to shareholders and customers, since published accounts do not disentangle pre- and post-privatisation assets. Matters are more difficult with BT, which stopped publishing accounts on a current cost basis when privatised.

Moreover, figures for single years can be misleading. British Gas's 3.1 per cent return in 1992 was depressed by exceptional factors. Mr Rogerson of British Gas explains that in most years since privatisation the company has earned between 6 and 7 per cent.

Such complexities lead some to question the the formal approach of calculating the cost of capital. Mr Peter Hyde, an analyst at Kleinwort Benson Securities, says it involves "taking one subjective figure, called capital values, and multiplying it with another subjective figure, called rate of return, to calculate an even more subjective figure".

A less formal method is to look at how well shareholders have fared in practice. This approach, which involves comparing how far share prices have risen since privatisation with the rise in the FTSE-100 index, is set out in the chart.

In all cases, the privatised utilities have outperformed the index, but their records vary considerably. The recently privatised water and electricity companies have done very well – with share prices often rising by 100 per cent during periods when the index rose little. BT and British Gas have also seen their share prices rise. But the rises look less impressive given that they were privatised in 1984 and 1986 respectively and the index has also risen substantially since.

The main explanation for the varied performance is that regulators have already tightened the price caps of the companies which were privatised first. BT's cap has been squeezed from the rate of inflation minus 3 percentage points (RPI-3) to RPI-7½, and British Gas's from RPI-2 to RPI-5. The tighter caps are already having an impact on profits.

By contrast, the more recently privatised electricity and water industries have so far escaped stricter regulation. But reviews of their price caps are under way and it is unlikely they can avoid the regulatory squeeze forever.

When the British regulatory structure was invented, the government hoped to avoid the American debate about the proper rate of return for utilities. It was over-optimistic. The debate is now well under way. It is complex and fraught. It will probably never end.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Serb leader fails to offer alternative

From Sir Jack Stewart-Clark MEP.

Sir, Radovan Karadzic, leader of the Bosnian Serbs, writes (Personal View, June 9) about the Moslems in Bosnia. He asserts that no Serb can deny that they need a secure home in Bosnia. Is it not strange, therefore, that the Bosnian Serbs, with their self-styled Serbian parliament, refused to allow Mr Karadzic to put his signature to the Vance-Owen plan, which allowed for the Moslems to have just such a secure home?

At no time have the Bosnian Serbs come forward with a just alternative. The truth of the matter is that Slobodan Milosevic and Vojislav Seselj, who have between them almost total power in Serbia, are intent on carving out a greater Serbia and the Bosnian Serb regime under Karadzic is a willing accomplice to this. A greater Serbia in their eyes includes all of Bosnia-Herzegovina, the occupied portions of Croatia, Kosovo and Macedonia. Possibly the Moslems may be allowed living space within this but only under the boot of Serb domination.

Karadzic describes the Bosnian Moslems as "our Slav brothers". Let him and the Serb leadership come forward with a humane and realistic plan for these brothers, which will enable them to live in peace and freedom. The world may then start believing that his words have some substance and are not another smoke screen behind which further ethnic conquests may be made.

Jack Stewart-Clark,
MEP for East Sussex,
97/113, Rue Belliard,
Brussels

Vote on it

From Mr Philip Mickelborough.

Sir, The decision on whether there should be a referendum on the Maastricht treaty has too fundamental an effect on Britain's constitution to be left to the politicians.

There should be a referendum on it.

Philip Mickelborough,
39 Kingsbury Street,
Marlborough,
Wiltshire SN8 1JJA

Call for a royal commission on manufacturing industry

From Mr Roger Lyons.

Sir, Zeneca's current difficulties with its share issue ("Dealers concerned at Zeneca outlook", June 11) is just the latest example of the chronic short-termism that plagues British industry.

Here is a company at the leading edge of scientific innovation, in an industry which requires long-term investment in R&D, but which also produces long-term rewards, struggling to find the capital it needs. Contrast this with the recent stock market feeding frenzy in property where investors have been fighting to get a piece of the action.

How much longer are we going to have to put up with our future as an industrial nation being undermined by the operation of a completely inadequate financial system? How much longer are we going to see the share of Britain's gross domestic product produced by manufacturing continue to decline? While some sectors of our manufacturing are rightly admired, overall it is now simply too small.

This is a long-term problem that requires long-term solutions and a change in attitudes. The emerging consensus on the importance of manufacturing now needs to be turned into practical action to support and sustain our industries. It is for this reason that *MSF* has recently proposed to the prime minister the establishment of a royal commission on manufacturing industry. Its task would be to investigate and report on the role that government can and should play in supporting manufacturing industry; lessons to be learned from abroad; structural changes needed to overcome the dominance of short-term thinking in the link between finance and productive industrial investment; establishment of an industrial system based on partnership between management and employees; and the most effective means of turning innovation, research and development into manufactured goods.

There has been a large number of royal commissions this century, but not one on manufacturing – the foundation of Britain's national wealth. It is time this was remedied.

Roger Lyons,
general secretary,
MSF Union,
64/66 Wandsworth Common North Side, London SW18 2SB

Predictions on share prices, please

From Mr Gordon Mitchell.

Sir, The improvement to the FT weather service is greatly welcomed. Particularly useful are the forecast temperatures for the day of publication in the leading centres of the world. Your previous service giving temperatures at noon on the previous day was, after all, of interest to just a few time travellers.

Perhaps the time is now right to extend this logic to your excellent London Share Service. The previous day's figures are, after all, an esoteric interest. The value of your newspaper would be immeasurably increased, for the general reader, by the inclusion of forecast share prices at noon on the day publication.

No doubt, the actuaries you use for your share indices could easily cope with such a short-term forecast.

Gordon Mitchell,
146 Manor Green Road,
Epsom, Surrey KT19 8LL

Aims of Taiwanese airline

From Mr Frank Hsu.

Sir, I offer some clarification to your article speculating on the possible advancement of government negotiations for the development of commercial air services between Taiwan and mainland China ("Business pulls Taiwan closer to mainland", May 21).

Your naming of certain cities as possible destinations for new air routes from Taiwan – Beijing, Shanghai, Xiamen, and Guangzhou – is conjecture, and will remain so until such time that the political situation changes.

That EVA Air may serve these, or any other cities in mainland China, must therefore be seen as speculative, and our decision would be made solely on commercial grounds.

It is quite wrong, however, to suggest that EVA Air would transfer aircraft from existing international scheduled services to develop new air services between Taiwan and mainland China. Our international route development remains central to our growth strategy.

It is untrue also to state the EVA Air's chairman, Mr Y F Yang, is "an avowed supporter" of Taiwan's Democratic Progressive party. He has never been affiliated with any of our political parties.

Finally, your article began by stating that EVA Air will have five new Boeing 747-400 aircraft before the end of this year. In fact, we shall have seven.

Frank Hsu,
president,
EVA Air,
EVA Air Building,
376 Hsin-nan Rd,
Sec 1, Lechu,
Taoyuan Hsien, Taiwan

Holding on to directors

From Mr Walter Wright.

Sir, You may be right, overall, to urge the limiting of directors' rolling contracts to not more than 12 months ("Pay off punch", June 8), but the longer ones do have their legitimate uses.

I recently pointed an accusing finger at a non-executive company chairman who had raised from three to five years the contracts for this top two executive directors. He patiently explained that he was anxious to retain the services of the two executives concerned for as long as possible as they were important to the company. There was no question, in this case, of a possible golden parachute.

Walter Wright,
188 Court Road,
Orpington, Kent BR6 0PY

FINANCIAL TIMES
Monday June 14 1993

Selection seen as watershed in country's politics

Turkey picks economist as first woman premier

By John Murray Brown in Ankara

MRS Tansu Çiller, a 47-year-old academic economist, will be sworn in today as Turkey's new prime minister. She becomes the first woman to lead the predominantly Moslem country, and one party delegate said: "She is the only candidate who can represent Turkey in a European context."

Having resigned as economics minister last week to contest the leadership of the conservative True Path party (DYP), Mrs Çiller emerged unchallenged on the second ballot of 1,169 DYP delegates. She had fallen just short of an absolute majority against two other contenders in the first round. Mr Ismet Sezgin, interior minister, and Mr Koksal Toptan, education minister, then withdrew.

The new premier succeeds Mr Suleyman Demirel, whose accession to the presidency last month created yesterday's leadership contest. With the death in April of then President Turgut Ozal, and Mr Demirel as president, Mrs Çiller's election marks a watershed in Turkish politics and the handover to a younger generation.

First woman PM must reforge party image..................Page 5

Her emergence is not likely to signal a great shift in Turkey's traditional pro-western foreign policy, although she is expected to accelerate economic reforms. Yesterday she restated her promise to speed up the privatisation of state companies.

A wealthy Istanbul economics professor, Mrs Çiller is seen as the party's best hope to restore its tired image ahead of the vital municipal elections next year and the general election which must be held before 1996.

She told delegates meeting in an Ankara sports stadium that in voting for her they were "writing the first words on a sheet of new white paper". A relative unknown in DYP ranks, who entered parliament only at the last election, Mrs Çiller owes her rise to Mr Demirel, who picked her as an economic adviser. However, the president, who immediately sent his congratulations, will need to counter a public impression that he opposed her candidacy.

With most of the cabinet also thought to have voted against her on the first ballot, Mrs Çiller will quickly have to assert her control over the party machine.

There was also some doubt last night over the future of Mr Rusdu Saracoglu, the central bank governor with whom Mrs Çiller has disagreed over her anti-inflation policy. Mr Saracoglu was a pivotal figure in the economic reforms of the 1980s.

Italian bank reform set to assist troubled companies

By Haig Simonian in Milan

ITALY'S banks have been given the go-ahead to take stakes in industrial companies, in a step aimed at assisting privatisation and bailing out troubled private companies.

Commercial banks will be able to own up to 15 per cent of industrial companies directly, provided the stakes do not damage their profits. The size and number of equity stakes will be limited by criteria set by the Bank of Italy, based on a commercial bank's size and type of business.

Large commercial banks will not be able to invest more than 6 per cent of their capital in a single stake, and not more than 40 per cent for all their industrial participations.

The plan to reform one of the central pillars of Italy's 1936 banking law, made by the central bank last month and approved by a cabinet committee on Friday night, takes the country's banking rules closer to the German model.

The long-discussed change has been accelerated by the severe debt crisis faced by a number of Italian companies. Rescue talks are under way between Ferruzzi, Italy's second biggest private company, and bank creditors, while creditors are negotiating a restructuring of the Aga Khan's Ciga hotels chain. Ferruzzi and Ciga have debts of L31,000bn ($20.9bn) and well over L1,000bn respectively.

Reform of banking rules could also ease the government's privatisation plans.

Allowing the banks to take stakes in privatised companies could help overcome liquidity problems on the small Milan stock exchange and provide the government with much-needed cash to curb the huge budget deficit.

Italy's privatisation programme, involving the disposal or flotation of large swathes of the state's activities in industry, energy and financial services, has had a slow start. Although handicapped by domestic political uncertainties, disposals have also been held back by limited interest.

Some observers fear reform of the banking law could put pressure on state-owned banks, which dominate the financial system, to buy up privatised assets.

● A senior Italian official has confirmed the government has reached a compromise with the European Commission on reforming new laws on securities trading to bring them into line with EC rules.

Rome will alter its controversial law, named after the Societa di Intermediazione Mobiliare, the new form of securities broker, to conform with EC rules on freedom of establishment and the free provision of services.

Italy to sell financial services group, Page 15

Domestic hitch for Clinton's Supreme Court plan

By Jurek Martin in Washington

WASHINGTON'S newest and most virulent disease – acquired household help payments deficiency syndrome – was yesterday presenting complications for President Bill Clinton's likely choice for the Supreme Court.

The White House confirmed US media reports that Judge Stephen Breyer of Massachusetts and his wife had for several years failed to make social security payments on an elderly woman who was a part-time home help.

They had apparently made back payments and paid a penalty earlier this year following revelations in the cases of Ms Zoe Baird and Judge Kimba Wood, respectively nominated and considered by Mr Clinton for the position of attorney general.

The president was said to have been impressed by Judge Breyer, chief of the federal appeals bench on the Boston circuit, at a White House lunch on Friday. No announcement was then made to allow for last-minute background checks, but the Breyers were asked to stay on in the Washington area for a few days and the other leading candidate, Mr Bruce Babbitt, the interior secretary, said he was content in his present position.

There was no early word yesterday from the White House as to whether Judge Breyer's nomination was now in doubt. But one obvious difficulty, instantly alluded to by Mr William Cohen, the Republican senator from Maine, is that nominating him could prompt the widespread perception that a double standard is applied to male and female candidates for high office.

During the Baird and Wood controversies, it was frequently alleged that no male nominee would ever have been subjected to inquiry about the affairs of his personal household. Two male cabinet members – Mr Ron Brown at the Commerce Department and Mr Federico Pena at transportation – were confirmed in office after disclosing that they had failed to pay the relevant taxes on their domestic employment.

There are shades of difference in the three household help cases. Ms Baird and her husband, a law professor at Yale, had hired a Peruvian couple, apparently knowing that it was illegal at the time to hire undocumented immigrants. Judge Wood and her husband, a journalist at Time magazine, committed no technical breach of the law, but were caught in the Baird backlash.

Judge Breyer and his wife, a psychologist, are said not to have paid social security payments which they thought unnecessary because their household help, a US citizen, was already old enough to be receiving social security benefits.

THE LEX COLUMN

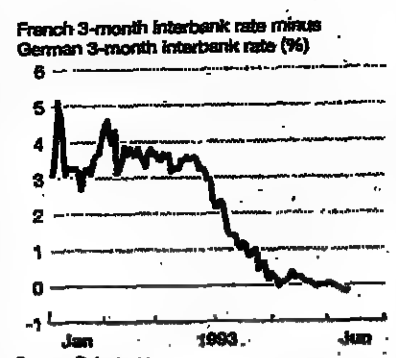
Stable conditions

Controlling market prices around the time of new issues has long been a thorny problem for investment banks. Any attempt to support the price of an issue is a form of market manipulation, though it is often justified on the grounds that it helps maintain an orderly market. Such stabilisation is now controlled by strict SIB rules which forbid, for example, the lead manager to buy in securities above their issue price. So in the Zeneca rights issue, the manager Warburg, which has been a notable bidder for shares above the 600p issue price, is presumably acting for clients, since buying for its own book would be difficult to distinguish from stabilisation.

The rules on stabilisation are, however, quite specific and focus on the lead manager buying securities immediately after the issue. In the case of the BT3 offer, Warburg is encouraging institutions to buy shares ahead of the float by offering preferential allocations to those that buy, while penalising excessive sellers. This will tend to support the price and smooth the absorption of the issue. In that sense at least it is analogous to stabilisation, for while the lead manager is not directly supporting the price, it is encouraging others to do so.

If the incentive proves popular, it could significantly influence the BT share price. With stabilisation, at least the members of the syndicate know the extent of intervention, whereas in this case not even the lead manager is fully aware of the market impact of the measure. Currently there is a grey area between acceptable smoothing and an unacceptable false market. Perhaps the SIB should consider including such incentives in wider stabilisation rules to ensure that the market is transparent, as well as orderly.

Interest rates



Source: Datastream

Currencies

The message from the money markets is that holding D-Marks is now more risky than holding French francs. While the ubiquitous Mr George Soros might be blamed for spreading the notion that the D-Mark is due for a period of weakness, other factors are at work. The dire state of the German economy undermines faith in the Bundesbank's ability to defend the D-Mark. Supportive statements from the authorities last week notably failed to lift the currency.

With the D-Mark wounded, France has a chance to cut rates without worrying too much about strains within the ERM. Since recession in France is at least as painful as in Germany, it should make the most of the opportunity. The change in sentiment towards the franc this year is a reminder of how fickle the foreign exchange market can be. Should the German economic slide prove less protracted than the pessimists believe, or should France's good intentions on inflation be seen to waver, the D-Mark could start to impose again.

It is far from clear that the D-Mark has been deposed as the anchor of the ERM. French bonds still yield more than German bonds at longer maturities. That reflects the short track record of the Bank of France as a paragon of monetary virtue. Until it can rival the credibility of the Bundesbank over a long-term horizon, D-Mark weakness looks more like a window of opportunity than the start of a new era. If 10-year French bond yields fall below German, it will be time to think again.

Water sector

The inability of the water companies to make a decent return on unregulated business has been a notable feature of the results season. The companies' response is that investment in areas such as waste disposal and process engineering is a hedge against tougher regulation after next year's review. Whether or not that proves correct, the relationship between the regulated and unregulated sides of the business should be as transparent as possible.

On the surface, water companies work under stricter rules on cross-subsidies than other privatised utilities. Licence amendments introduced last year explicitly outlawed any form of subsidy passing across the regulatory divide. But the system of policing so far has been anything but foolproof. By publishing new guidelines on transfer pricing last month, Ofwat recognised as much. The dividends paid by the utility companies to their quoted parents remain a grey area. Northumbrian drew £21.8m from its utility last year, but paid out rather less to shareholders. Its unregulated business lost money.

All credit to Northumbrian for reporting the dividend figures with its preliminary results. Other water companies would do well to follow suit. One can only hope the regulator takes such transfers into account when setting pricing limits for the second half of the decade. If Ofwat gets its sums right this time around, there will be precious little left over to pass up the line.

Barclays

It is now more than three months since Barclays cut its dividend and promised to find a new chief executive to work alongside Mr Andrew Buxton, the bank's chairman. Since then, there has been no news on the chief executive, but the share price has risen by 20 per cent. There is a risk that this recovery will calm the institutions down. They are more inclined to make a fuss when they are losing money, but a responsible role in corporate governance requires a consistent longer-term approach. The installation of a better structure at Barclays is a project worth seeing through.

It would be unfair to expect Barclays to rush. The choice is a difficult one but it gets harder as time goes by. Not only would a new chief executive have to work with existing senior managers who may be miffed at the appointment of an outsider. The better Mr Buxton is established as executive chairman, the harder it will be for a new chief executive to carve out a meaningful role – and the greater the risk in accepting the job.

If it is not to face the loss of more top executives, Barclays needs a candidate of conspicuously higher calibre than the average senior clearing banker. One answer might be to look for a non-banker, but it would make more sense to appoint such a person as chairman. Sir Peter Walters became chairman at Midland, while Mr Brian Pearse, the hands-on banker, was made chief executive. The task at Barclays might be easier if the bank was made more manageable by splitting it up. BZW, for example, is plenty big enough to stand alone.

Somalia

Continued from Page 1

of burned-out ammunition stockpiles. Mr Ato claims he stored only fuel and spare parts at his workshop.

Gen Aideed was also at the site. "This is an unjust and criminal act against Somali people," he said. He called on the world to condemn the human rights violations committed by Pakistani troops. He said he would not hand over those responsible for the June 5 killing of Pakistani troops. "I will remain with my people," he said.

Japanese reluctant to move

Continued from Page 1

Japan, where controversial, friction-creating decisions, such as staff cuts, are very slow to be made.

"The companies were basically restructuring cases, and we have found that Japanese companies are reluctant to get involved in this sort of operation. Certain unpopular decisions have to be taken, and they don't like doing that," Mr von Stackelberg said.

"The US business mentality is completely different. They are very interested at buying in cheaply and turning a company around. Japanese companies are extremely risk averse."

The Treuhand also discovered that business contacts are not made through advertising in the Japanese financial press. Mr von Stackelberg said that there was "almost zero response" to a series of advertisements, but "you have to pay a certain price to gain experience".

Most of the agency's contacts were made through Japanese trading houses and banks, which passed on details of potential deals to their corporate clients.

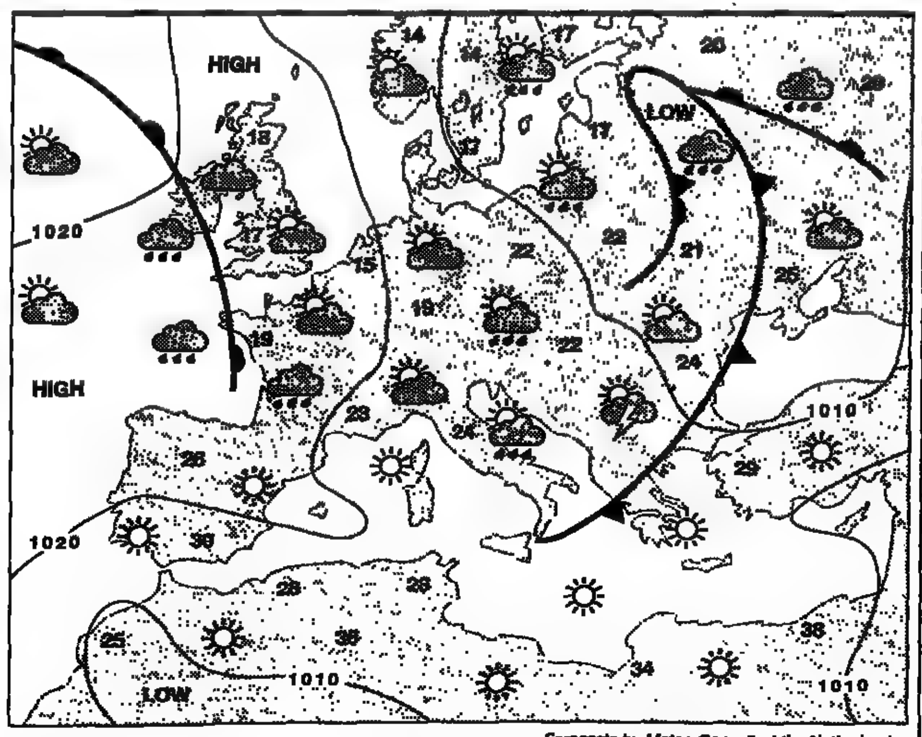
FT WORLD WEATHER

Europe today

East of high pressure, located over the British Isles cooler, drier air will move into north western Europe. It will be fair in Norway, Denmark, eastern England and Scotland and in the northwest of the continent. By contrast, it will be overcast in Ireland and western and central France with even some rain later as a warm front moves in from the Atlantic ocean. Another front is present over the north-west of the Commonwealth of Independent States. Around the low pressure, it will be overcast with periods of rain. Behind the cold front the air will be unstable over the Balkans with some showers developing. In southern Europe, it will be sunny with temperatures rising to 26C-30C.

Five-day forecast

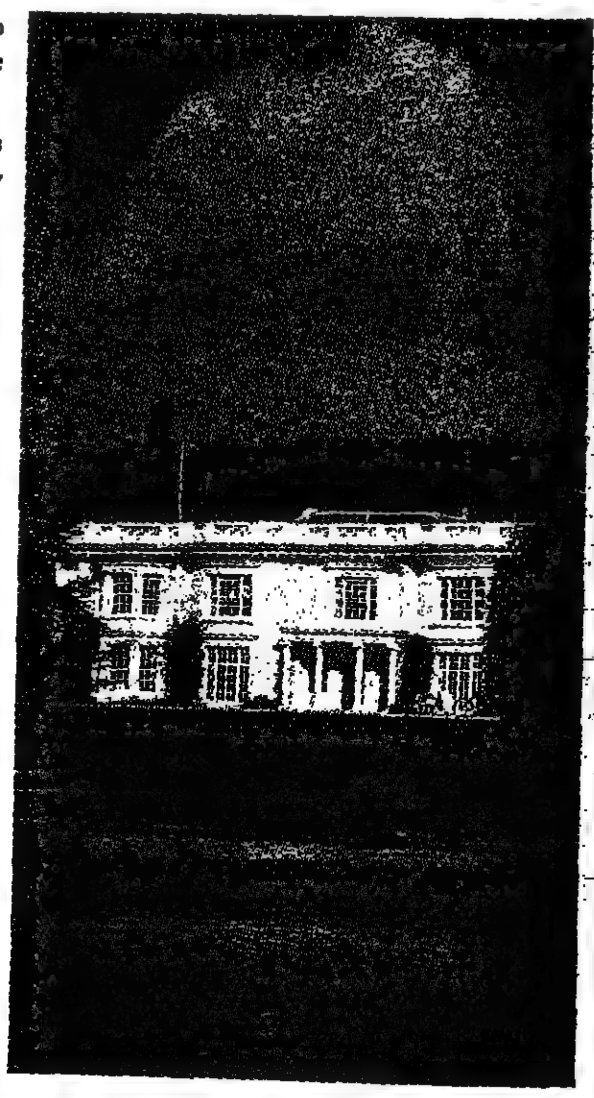
In the northern half of Europe, it will be rather cool and unsettled this week. There will be some fair periods, but rain will also fall, as depressions move in from the Atlantic. Over the continent, the temperature should become warmer by the end of the week. Over the Balkan states, there will still be some showers tomorrow, but from Wednesday, it will brighten up. In Spain, Portugal and Italy it will be sunny and warm with just a small risk for a thunder shower in Spain on Thursday.



Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Berlin	fair	18	Chicago	shower	27	Faro	sun	30	Majorca	sun	27	Rangoon	thund	29
	Celsius		Bermuda	fair	27	Cologne	fair	17	Frankfurt	fair	19	Malta	sun	28	Reykjavik	fair	12
Abu Dhabi	sun	40	Birmingham	cloudy	16	Copenhagen	fair	18	Geneva	fair	19	Manchester	fair	16	Riyadh	sun	42
Accra	fair	30	Bogota	shower	19	D' Salaam	fair	28	Glasgow	cloudy	17	Manila	fair	34	Rome	shower	24
Algiers	fair	28	Bombay	fair	31	Dakar	fair	30	Hamburg	fair	15	Melbourne	fair	15	S' Francisco	sun	17
Amsterdam	fair	15	Bordeaux	cloudy	22	Dallas	fair	33	Helsinki	shower	17	Mexico City	thund	22	Seoul	thund	26
Athens	sun	31	Brussels	fair	16	Darwin	fair	31	Hong Kong	thund	27	Miami	shower	32	Singapore	thund	32
Bangkok	thund	33	Budapest	shower	22	Delhi	fair	41	Honolulu	sun	31	Milan	fair	25	Stockholm	shower	14
Barcelona	sun	24	Buenos Aires	shower	13	Dubai	sun	39	Isle of Man	cloudy	16	Montreal	fair	28	Strasbourg	fair	19
Beijing	thund	32	Cairo	sun	36	Dublin	rain	17	Istanbul	sun	27	Moscow	rain	21	Sydney	fair	18
Belfast	drzzl	17	Cape Town	fair	19	Dubrovnik	shower	25	Jersey	fair	16	Munich	shower	19	Tel Aviv	sun	34
Belgrade	thund	22	Caracas	shower	29	Edinburgh	fair	16	Karachi	fair	34	Nairobi	fair	20	Tokyo	fair	27
									Kuwait	sun	42	Naples	thund	24	Toronto	fair	26
									La Paz	fair	17	Nassau	fair	31	Tunis	fair	28
									Las Palmas	sun	24	New York	fair	28	Vancouver	fair	21
									Lisbon	sun	29	Nice	sun	23	Venice	shower	24
									London	fair	17	Nicosia	sun	34	Vienna	shower	21
									Los Angeles	sun	28	Oslo	fair	16	Warsaw	fair	22
									Luxembourg	fair	16	Paris	fair	19	Washington	sun	28
									Lyon	cloudy	21	Perth	sun	15	Wellington	shower	13
									Madeira	sun	22	Prague	shower	19	Winnipeg	fair	19
									Madrid	sun	29	R' de Janeiro	cloudy	22	Zurich	fair	18



Reform programme is as right as rain
Page 2

FINANCIAL TIMES SURVEY

TUNISIA

Fears that the country may lose its charm
Page 8

SECTION III

Monday June 14 1993

As a result of its policy of structural adjustment, Tunisia has become a favourite of the International Monetary Fund. It is also a pilot country for certain United Nations social programmes. **Mark Nicholson** and **Francis Ghiles** report

An economic balancing act

NORTH Africa's smallest nation looks to its neighbours with a peculiar mixture of pride and unease. Tunisia's ministers, and swelling class of businessmen and women, point with self-congratulation to the country's recent economic successes, its political stability and its distinctively western social policies. The ogre of Islamic fundamentalism has, they claim, been quashed.

A course of near-Europeanisation is firmly plotted. If only the same held next door to the west, where Tunisians are profoundly disconcerted by the threat of incipient guerrilla war in Algeria, or to the east where Libya continues to ply its own unpredictable, pariah's path!

Such regional uncertainties appear only to harden the government's determination to set a better, meaning a more western, example. The regime of President Zine el-Abidine Ben Ali, which calmly ushered out, on the pretext of "senility", the post-independence leader Mr Habib Bourguiba in 1987, holds as its primary ambition nothing less than laying eventual claim to a full place in what it hopes will be an expanded European economic space.

Much has been achieved. Seven years into International Monetary Fund and World Bank guided structural adjustment, Tunisia's increasingly open economy has grown by an average 6.6 per cent in real terms over the past three years. Absolute poverty has shrunk, according to official figures, from 30 per cent of the population in the 1970s to 6.7 per cent today. As a legacy of Bourguiba's progressive birth control policies, the population growth rate has diminished to a regionally unparalleled 1.9 per cent, and the country is set to reach replacement rate for its economic population in 2025, by which time there will be around 12m Tunisians.

Socially, too, Tunisia aspires to European norms. Perhaps most important is the role accorded to women, who enjoy better rights to divorce, abortion and general equality before the law than their counterparts in any other Arab country – again a legacy of the Bourguiba era. Tunisia's association of women managers has 2,000 or more members.

Such achievements have made Tunisia a favourite of the IMF, and a pilot country for certain United Nations social programmes. But they have been won in a manner which has brought the government little praise for its political strategy.

In testimony last month before the US House foreign affairs committee, Mr Edward Djerejian, assistant secretary responsible for Near East Affairs, praised Tunisia as a "case study of the positive results of free market reforms," but voiced "serious concerns" about human rights and political freedom. "Tunisia has dealt too harshly with some of its political opponents," he said. "Tunisia's human rights record has been marred by credible claims of torture."

These claims were raised particularly by Amnesty International following the government's arrest and detention in May 1991 of almost 300 alleged members of the now outlawed al Nahda Islamic party, whose leader, Mr Rachid Gannouchi, is now seeking political asylum in Britain.

The group was accused of plotting the government's overthrow and planning to attack the president's aircraft with a Stinger anti-aircraft missile. But the clampdown followed rising concern within the regime at the rising Islamic challenge in Algeria and the burning of two night watchmen at the premises of the ruling party. In the view of most western diplomats in Tunis, the government simply decided to come down as hard as possible, as soon as possible, on what many consider to have been at best a nascent threat. "They wanted to crush the movement while it was still inside the egg," says one.

The government, and Tunisia's middle classes, profess themselves confident that, for the moment, whatever fundamentalist threat there was has been summarily dealt with. Whatever residual popular support al-Nahda might still have is almost impossible to judge. Diplomats quote support ranging from 13-20 per cent in the last elections, where independent candidates backed by al-Nahda were free to run. While the government keeps a tightly policed clamp on any political manifestation of Islam, however, estimates of present fundamentalist sympathy are anecdotal surmise.

In fact, the government's weapons against political Islam are not merely oppressive. Its championing of women is one attempt to create a powerful social pillar of resistance against what it regards as "backward" Islamic thinking.

Among other attempts to attack the possible social causes of fundamentalism, the ministry of social affairs is also, creating numerous centres of "social service and integration". These are being set up in places of relative poverty and deprivation to nip "delinquency" in the bud and better to understand and address its causes. "In Algeria and Egypt social policies have been left to the fundamentalists," says one official. "That will not happen here."

But the greatest single weapon, the government hopes, will be economic progress and the delivery to Tunisia's already large middle class of some tangible rewards from liberalisation. On the macro level, Tunisia has already brought down its budget deficit to around 2 per cent of GDP from more than double that in the late 1980s, has freed a majority of producer and consumer prices, trimmed subsidies, begun to liberalise financial markets, freed constraints on most imports and courted with increasing zeal foreign investment, levels of which it hopes to treble over the next three years.

It has also begun preliminary negotiations with the European Community, with which Tunisia does almost 80 per cent of its trade, towards a comprehensive co-operation accord to improve substantially on the financial protocols and quota agreements which at present determine its links across the Mediterranean.

The key to its success will lie in achieving its ambitious inward investment target. To keep pace with its growing workforce, Tunisia needs to create more than 60,000 jobs a year – and more if it is to make inroads on unemployment officially calculated at 15 per cent. "This growth is possible," says one banker, "but only through marginal investment, and this can come in sufficient size only from overseas".

The difficult task for Tunisia's technocratic ministers will be to attract this investment while continuing to expand, and pay for, social policies which are considered both a political imperative and the natural fulfilment of the population's increasingly middle class aspirations. For the moment Tunisia competes directly as a low wage economy with its North African neighbours, notably Morocco, eastern European countries and, in some industries, south-east Asia. But, says Mr Nouri Zorgati, the finance minister: "We do not want to break records of competitiveness by sacrificing social standards." The government is determined to improve its network of social policies, including, for instance, a minimum wage which rises in line with inflation. At the same time it cannot afford to lose competitive ground to the countries of eastern Europe.

To that balancing act should be added, in the minds of many Tunisians, an additional political imperative: that of taking greater steps towards real democratisation while at the same time allowing the country's press greater freedom. At present, President Ben Ali's ruling party, the Rassemblement Constitutionnel Democratique, holds all 141 seats in the country's parliament and keeps an iron grip on the political process.

Talks between Mr Hamed Karoui, the prime minister, and opposition parties are under way with the aim of ensuring at least some non-RCD representation after general elections next March. The government has conceded the principle of allowing some seats in the chamber to be elected through proportional representation, the rest first-past-the-post. This, it is believed, could return 10-20 opposition MPs. "The government wants to create an opposition which is both credible, and controllable," says one diplomat, "and that won't be easy."

But some critics in the country believe the government's present efforts will fall far short of creating truly representative opposition, accusing the government of maintaining a "monochrome" parliament which does an injustice to the sophistication of Tunisia's educated electorate and to the kind of debate over its economic reforms many consider vital. "You can't talk of economic liberalism and continue with political dirigisme," says one critic, who prefers to remain anonymous. "The model of Pinochet-style development is dead."

These critics understand the difficulty of opening up the political system when the chief beneficiary could be Islamic militants. But many argue that the government will be able to carry through the next difficult phase of economic reforms only if these can be fully debated in a freer press and by a more representative parliament.

Contrast in styles: the painting above by Abdelaziz Gorgi is representative of the modern school of Tunisian art, while the engraving (left) by Gaston Vuillier dates back to 1896 (Engraving reproduced by courtesy of Taher Ben Mustafa)

IN THIS SURVEY

Editorial production: Roy Terry

Three seasons of bountiful harvests have helped boost the economy, says **Mark Nicholson**

Reform programme as right as rain

SO FAR the gods have smiled upon Tunisia's economic reform programme. Or, perhaps more accurately, rained on it.

Four growing seasons of good rain and correspondingly bountiful harvests have, as much as anything else, helped Tunisia raise GDP by an average of 6.6 per cent a year over the past three years. Further good rains promise also to lift this year's growth above government budgetary forecasts of 2.9 per cent.

Tourism receipts have been equally buoyant, rising 34 per cent last year to around DT1bn as the industry bounced back from its reverse during the Gulf war – a rebound which largely accounts for the disproportionately big 8.4 per cent rise in GDP for 1992 over 1991.

But Tunisia's harvests, tourist crop and, indeed, yields from all other sectors of its economy need to be abundant. The government, in its eighth and present development plan, has stencilled in an annual average growth rate of 6 per cent a year to 1996. Only at that rate, the government estimates, can the economy deliver the 313,000 new jobs the labour market will demand over the period.

Tunisia's vulnerability to Europe's economic malaise is evident

That target is ambitious for at least two good reasons. The first is that it must be achieved by export-led growth into the teeth of a recession in Europe, which at present swallows more than 77 per cent of Tunisia's overseas sales. The second is that this growth must also come as Tunisia's structural adjustment programme begins to cut more deeply into the softer underbelly of Tunisian industry.

Tunisia's vulnerability to Europe's economic malaise is already becoming evident. Even with 1993's banner growth figures, Tunisia's merchandise trade deficit widened 55 per cent to DT2.1bn: exports rose only 4 per cent against an 18 per cent rise in imports. Already this year, provisional figures suggest exports have risen only 0.3 per cent in the first three months while imports are up 10.2 per cent.

A big surplus in Tunisia's services is likely to offset much of the merchandise trade deficit, with tourism revenues in particular expected to grow by as much as 18 per cent. But some western economists believe Tunisia is likely nevertheless to see its current account deficit exceed last year's figure of DT722m in 1993.

The weakness of Tunisia's main markets may also have the effect of worsening the damage to its less competitive industries wrought by the continuing structural adjustment programme, now in its seventh year. "The effect of the reforms would have been quite small had there been no international crisis," says Mr Nouri Zorgati, the finance minister. "Unfortunately more firms will be affected than might have been the case – and sadly above all in textiles".

Mr Zorgati reckons that some 10 per cent of the country's hundreds of garment manufacturing companies could be directly at risk as Tunisia continues to dismantle import, tariff and price controls under its International Monetary Fund and World Bank guided reforms. As part of those reforms, the World Bank is to commit a line of credit worth $100m, to be disbursed through the banking sector, to help alleviate some of the pain among less competitive companies.

This restructuring process is already well under way – indeed, Mr Mustapha Nabli, planning and regional affairs minister, says the process should be almost complete by 1994. Already, he says, Tunisia has freed 87 per cent of producer prices and half of consumer prices. Some 85 per cent of imports have been freed of restrictions, with the remainder due to be freed by 1994. Tariffs, meanwhile, have been cut from pre-reform levels exceeding 200 per cent in some cases to an average of 43 per cent.

Nevertheless, the toughest effects of these reforms are still to come in many cases, and some of the most sensitive barriers remain to be dismantled. For one thing, some western economists calculate that although 85 per cent of imports have been freed from restrictions in total, restrictions have been lifted entirely on only 30 per cent of imports which compete directly with local products.

Some additional tariff barriers also remain. As a temporary and transitional cushion to some sectors of the economy the government in 1992 introduced a phased and diminishing additional tariff on some goods falling 30-20-10 per cent over three years and disappearing by 1995. Furthermore, a "temporary" 5 per cent import surcharge introduced to help cope with the economic shock of the Gulf war remains in place.

Nevertheless, there is no question either of the government's resolve to push through the full gamut of liberalising reforms, albeit at a pace which it feels it can politically afford, or of its success in managing those reforms already undertaken. Subsidies, for instance, have been trimmed substantially from around 3.3 per cent of GDP two years ago to a little over 2 per cent. Further cuts in basic subsidies are being examined.

On the revenues side, the introduction at a stroke in 1988 of value added tax, combined with a complete overhaul and rationalisation of income and corporate taxes has seen the tax take rise considerably – from $400m in 1991, for instance, to $590m in 1992. Top marginal tax rates were cut on income tax to 35 per cent from 68 per cent, and on corporate tax also to 35 per cent from 45 per cent, but the coverage increased substantially while, in the words of one banker, making the whole tax structure "brilliantly clear".

Tunisair is one of the state interests potentially under the hammer

The budget deficit, as a result, has slimmed from 3.9 per cent of GDP in 1989 to an expected 2.3 per cent this year. The figure is expected to fall by 1992, the end of the present plan, to 1.2 per cent. As another measure of the government's disengagement from the economy, the government's budget as a share of GDP has fallen from 40 per cent in 1989 to 35 per cent this year.

A privatisation programme has begun with the sale of more than 40 state-held interests, although the World Bank and IMF are understood to be pressing the government to accelerate the process. Among the bigger state interests potentially under the hammer is Tunisair, the national carrier. However, Mr Tahar Hadj Ali, the transport minister, says that for the time being the sale of up to 10 per cent of the airline's stock is being "prudently considered".

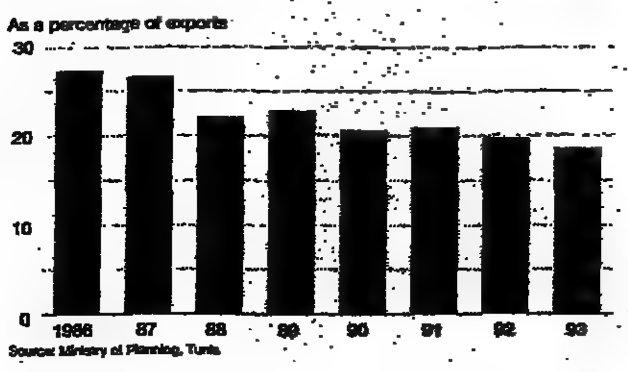
The one area where perhaps most remains to be done is in the development of Tunisia's banking industry and, more broadly, of its capital and financial markets. The latter, at present, extend little further than the interbank market and the country's small bourse, on which only 16 companies are traded.

The financial system has been given a considerable shake-up under the post-1987 administration, to clear away many of the dirigiste cobwebs accumulated under the more collectivist Bourguiba regime. Central Bank controls on bank credit and investment licencing have been removed. Interest rates have been largely freed to the market, bank lending rates liberalised with a fixed margin but no ceiling on maximum rates. All remaining lending and deposit rate restrictions are set to go next year.

But the country's numerous domestic banks, many of them laden with bad debts to companies of dubious competitiveness, still have far to go – almost certainly by way of mergers, recapitalisations and restructurings – before they will be at ease in Tunisia's fast-opening economy.

Debt service

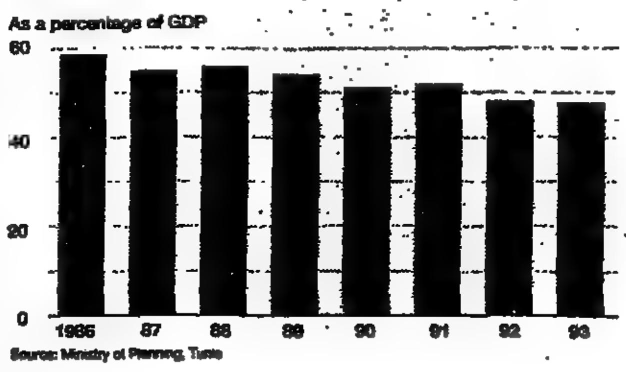
As a percentage of exports



Source: Ministry of Planning, Tunis

External debt

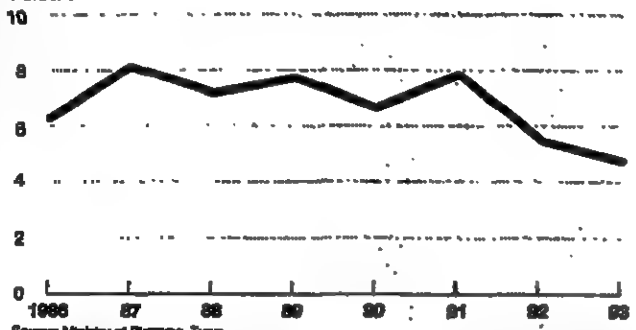
As a percentage of GDP



Source: Ministry of Planning, Tunis

Inflation

Percent



Source: Ministry of Planning, Tunis

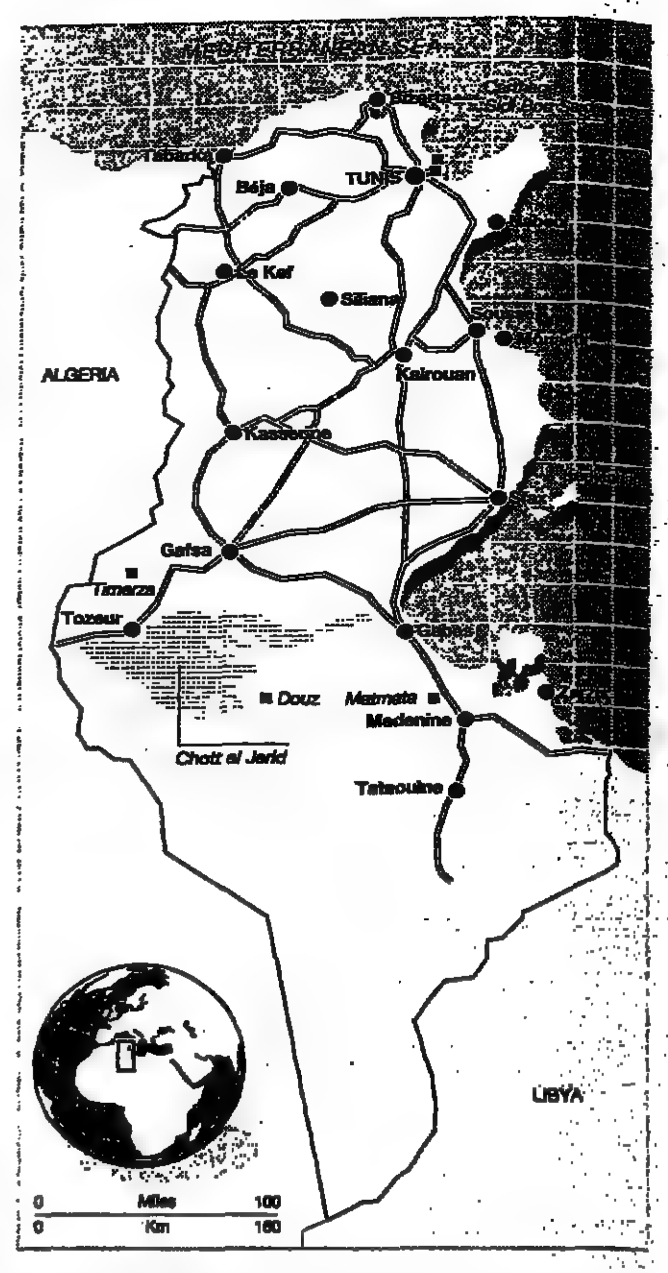
KEY FACTS

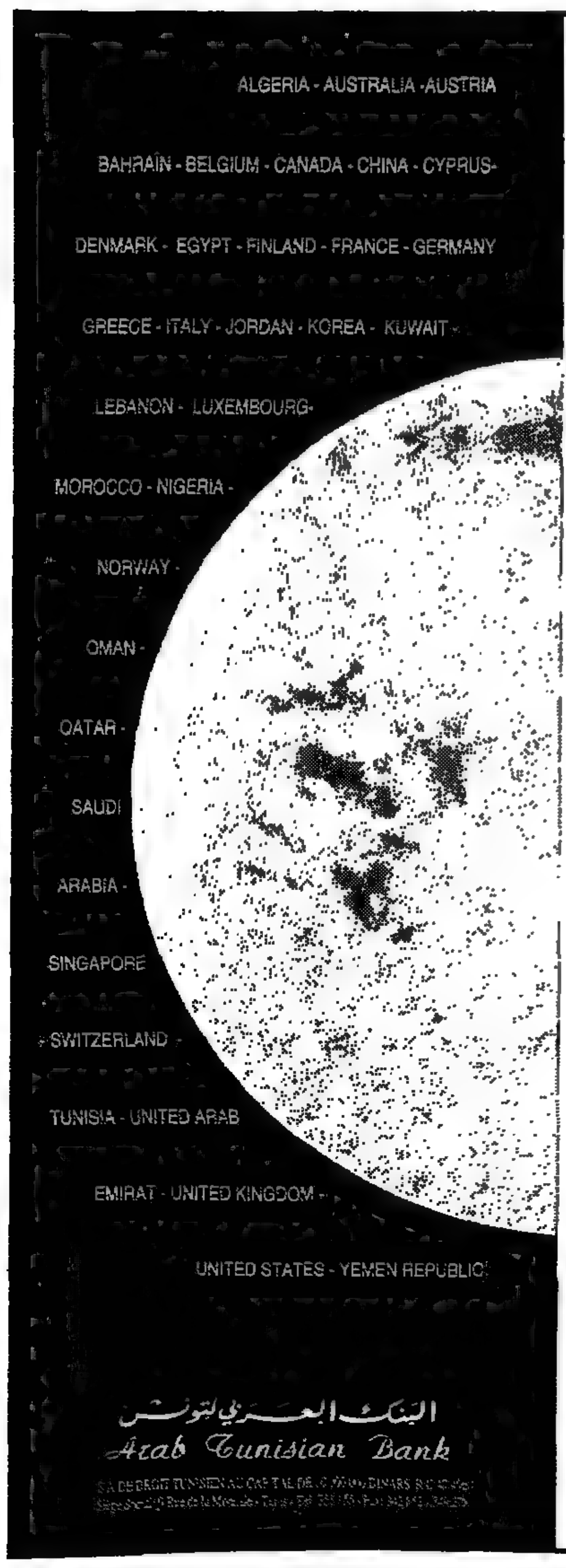
Area	164,150 sq km	
Population	8.37m (1992 estimate)	
Head of State	Zine El-Abidine Ben Ali	
Currency	Tunisian dinar	
Average exchange rate	1992: $1 = DT0.88590	

ECONOMY	1991	1992
Total GDP ($bn)	12.013	13.25
Real GDP growth (%)	3.9	8.1
GDP per capita (DT)	1,461	1,639
Components of GDP (%)		
Private consumption	63.4	62.1
Government consumption	17	16.3
Exports	39.5	38.7
Imports	-44.9	-45.0
Consumer prices (% change pa)	7.8	5.5
Unemployment (% of lab force)	15.8	15.8
Public sector debt as % of GDP.	26.7	34.2
Reserves minus gold (DTm)	635	852
Current account bal (DTm)*	-527.3	-562.3
Exports (DTm)	4,744.7	5,311.9
Imports (DTm)*	5,392	6,173
Trade balance (DTm)	-647.5	-1,023.5
Main trading partners (1991, % by value)	Exports	Imports
France	25.1	26.0
Italy	19.5	17.4
Germany	16.3	14.3
Belgium	6.2	8.6
EC	76.0	71.6
Maghreb Arab	8.7	3.8

*Without gasoline

Source: Ministry of Planning, Tunis





Mark Nicholson considers whether the country will emerge as North Africa's natural banking centre

Offshore banks offer window on the world

TUNISIA does not leap to mind if one is compiling a list of the world's tax havens and offshore banking centres. But it is at least 17 years since the first offshore banks opened for business in Tunis, and the tax advantages are the equal of most of its better-known peers: Bahrain, Cyprus, the Channel Islands, for instance. So why is Tunisia so little known?

The question baffles some ministers, who argue that Tunisia not only offers all the usual offshore banking perks, but good infrastructure, close proximity to southern Europe, a highly convivial and congenial lifestyle and more besides. Yet, there are only six offshore banks established in Tunis.

The matter also puzzles some of the bankers. They believe part of the answer is government reluctance to sell Tunisia hard. "The government wanted to be able to give everything possible to foreign investors into the country, through the offshore banks," says one banker, "but without attracting any of the negative aspects associated with tax havens elsewhere."

Tunisia's offshore banks are there, essentially, to serve the Tunisian economy, runs this view. And for a host of largely external reasons, the sector has never quite fulfilled the more global ambitions held out for it by the government which, in 1976, passed Tunisia's first offshore banking law.

The sector has never quite fulfilled the more global ambitions held out for it by the government which passed Tunisia's first offshore banking law in 1976

This law, as much as anything, aimed to offer a Tunisian shelter for fugitive banks and capital fleeing the civil war which was to end Beirut's primacy as the Arab banking centre of the 1960s and early 1970s. And, at the time, some 12 banks arrived, including Citibank and Bank of America.

Within a few years, however, Bahrain had comfortably wrested Beirut's mantle. Offshore banking there was fuelled both by the surge of petrodollars to recycle and by the need to finance Saudi Arabia's voracious appetite for expansion. Tunisia, out on a limb from all that and without an equally dynamic regional Maghrebi economy to compete, began to lose some of the early arrivals – Bank of America closed down, Banco de Brazil, National Bank of Abu Dhabi and others followed.

Tunisia's remaining offshore banks settled thereafter into their present role as the leading financial intermediaries for foreign investors. For a largely inward-looking local banking system, spawned from the *dirigiste* economy of the 1960s and screened from the outside world by the central bank, the offshore banks offered a window on the world.

They, alone, were legally entitled to offer exporters established as "non-resident" companies, but manufacturing out of Tunisia, hard currency transactions without prior approval from the central bank. They also tended to lead the way on trade finance. But the size and scope of the offshore banks came to be tied directly to the fortunes of Tunisia's economy.

Several banks carved out particular niches. Very broadly: BEST bank, a joint venture between the central bank and the Albaraka group, encouraged Saudi investment in Tunisia; North African International Bank focused on Tunisian-Libyan trade finance; Citibank took a lead in treasury operations, in particular with Maghreb currencies; and Tunis International Bank developed private banking, trade and investment finance.

Both BEST and Citibank also evolved onshore operations. These are permissible under laws permitting offshore banks to deal in local currencies to the value of equity investments they have brought into the country. BEST bank, for instance, reckons on having brought in $200m of such investment and has created an onshore dinar operation accordingly, within a further ceiling which permits offshore banks to take dinar deposits only up to 1 per cent of total domestic deposits.

But there is soon to be an erosion of the offshore banks' most distinguishing feature – their privileged position as foreign currency intermediaries. The government's decision to introduce current account convertibility of the dinar earlier this year now means that foreign currency transactions for import and export deals can be transacted without prior central bank approval, merely subsequent notification and record.

Their most distinguishing feature – a privileged position as foreign currency intermediaries – is soon to be eroded as the dinar becomes convertible

As the government moves towards full convertibility, pencilled in for 1996, the local banks will be increasingly exposed to direct international dealings and differences between the local and offshore banks will diminish accordingly. This, at least, is the hope and, indeed, the cue for the offshore banks' next role.

This will be, primarily, as the catalyst for the regeneration and internationalisation of Tunisia's still underdeveloped banking sector. By virtue of their previously exclusive international experience and a small salary premium over local banks, the offshore banks harbour the greater part of Tunisia's best bankers. As the country begins to develop its embryonic financial markets and accelerate its drive to attract inward investment, the offshore banks are positioning themselves to expand their products, particularly in investment and merchant banking.

The process is about to receive a small fillip in the shape of Arab Banking Corporation's arrival as a fully-fledged offshore bank. The Bahrain-based bank's representative office of some years standing has won approval for offshore status and the bank is aiming eventually to add onshore facilities. ABC, which already has an office in Tripoli and is seeking another in Casablanca, is the biggest international banking arrival in Tunis since the seventies.

It is unlikely to herald a new era for Tunisia as an Arab banking capital to rival Bahrain. Local bankers point out, for instance, that Tunisian banks are almost without direct representation in the country's main trading markets and have some way to go before they can aspire to that. ABC's arrival, however, and, more particularly, the government's clear determination to kick-start the financial sector nevertheless suggest that, should the Maghreb countries succeed in putting their professed ambitions of economic union into more effective practice, Tunis will emerge as North Africa's natural banking centre.

Mark Nicholson examines how the country is selling itself to the world

Inward investment drive is being stepped up

NOTHING is more vital to Tunisia's economic ambitions than substantially raising levels of direct foreign investment.

In this respect, Tunisia is being ambitious. To succeed in keeping GDP growth at a real 6 per cent a year until 1996, the end of the present development plan, the government has set itself the target of tripling inward investment, outside the hydrocarbons sector, from around $70m disbursed a year to at least $200m.

Only growth at that pace will create the additional 5,000 to 10,000 jobs a year needed to accommodate annual entrants to the workforce. And, in the view of many bankers, only foreign investment in export industries can generate this.

There is nothing new about Tunisia's investment drive, which began in earnest during the early 1970s when a previous government encouraged the creation of "non-resident" exporting companies through tax incentives and foreign exchange privileges.

But with the arrival of President Zine al-Abidine Ben Ali and the post-1987 *changement*, with its attendant flurry of liberalising economic reforms, came a change of gear.

Import, tariff and price controls have been dropped or relaxed. Investment licensing has been abandoned. A ministry of co-operation and foreign investment has been created to centralise the government's sales pitch. And early this year the government took the first steps towards making the dinar convertible, introducing current account convertibility for imports and exports.

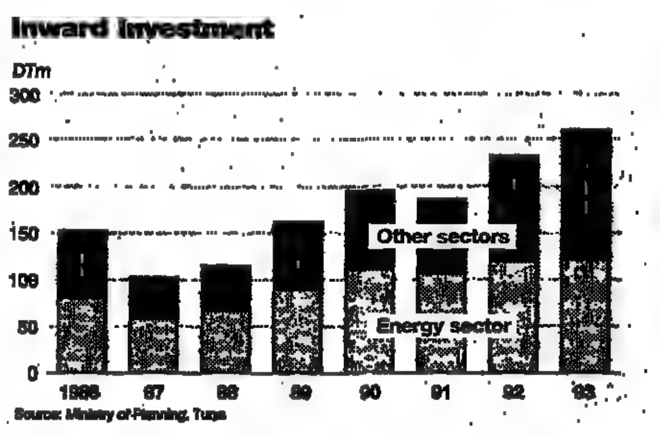
The government has taken the first steps towards making the dinar convertible

The government's next, imminent, step will be to produce a unified investment code to replace separate sectoral codes covering manufacturing, services, tourism and agriculture – "at the moment we're confronted by a library of texts," says one Tunis banker. The code covering hydrocarbons, which is substantially the biggest draw for foreign investors, will remain in place.

"We are producing a consistent and coherent institutional environment," says Mr Mustapha Nabli, planning and regional development minister. "We want to end changes in the environment. We're saying, with this code – that's it."

The new code, which Mr Nabli says should be finished and in place by July, also aims to cover areas, like transport and education, not previously covered by any sectoral code. It should also encourage regional development and, particularly, add incentives for investment bringing technology transfer.

However, the new code is unlikely in itself to offer a particular incentive in a country which foreign investors say has always offered a clear, efficient and systematic institutional framework for investment. Tunisia's main selling points will remain its political stability, its proximity and good access to the EC market, and its cheap labour costs.



Source: Ministry of Planning, Tunis

This combination has been rewarded by a steady flow of Italian, French, German and Belgian investment, notably in tourism, textiles, leather goods, and electrical and mechanical products. The resulting growth in tourism and textiles is particularly marked. There are, for instance, now more than 160 separate German manufacturing investments in Tunisia, covering companies employing 22,000 people. Exports of textiles and leather products to Europe alone, to illustrate further, made up 41 per cent of Tunisia's total exports in 1992.

The textile sector could receive a further, considerable boost should the board of Sara Lee, the US clothing and foods group, decide this month to proceed with a possible $60m investment in a spinning and weaving plant in Tunisia. The chief rival for the proposed investment appears to be Morocco, which has been lobbying hard to bring the US group to its corner of North Africa.

Indeed, all such major commitments from multinationals are likely to be increasingly hard won. Moreover, Tunisia's retention of keen competitive advantages against its immediate neighbours, the countries of eastern Europe and the former Soviet Union and the Asian "tigers", is likely to pose the greatest challenge to the government over the next few years, committed, as it is, to increasing, at the same time, a politically vital set of social policies.

On sheer wage costs, Tunisia remains competitive. A recent report by the Tunisian-French Chamber of Commerce quoted findings that Tunisia was a substantially cheaper place to make some garments than Poland, Portugal, Turkey and Hong Kong.

Nevertheless, unlike many of its rivals, Tunisia maintains a minimum guaranteed industrial wage which is subject to increases in line with prospective inflation. "Tunisia is still competitive," says one German industrialist. "But they have to pay attention."

Wages are competitive but, unlike those of many rivals, will rise with inflation

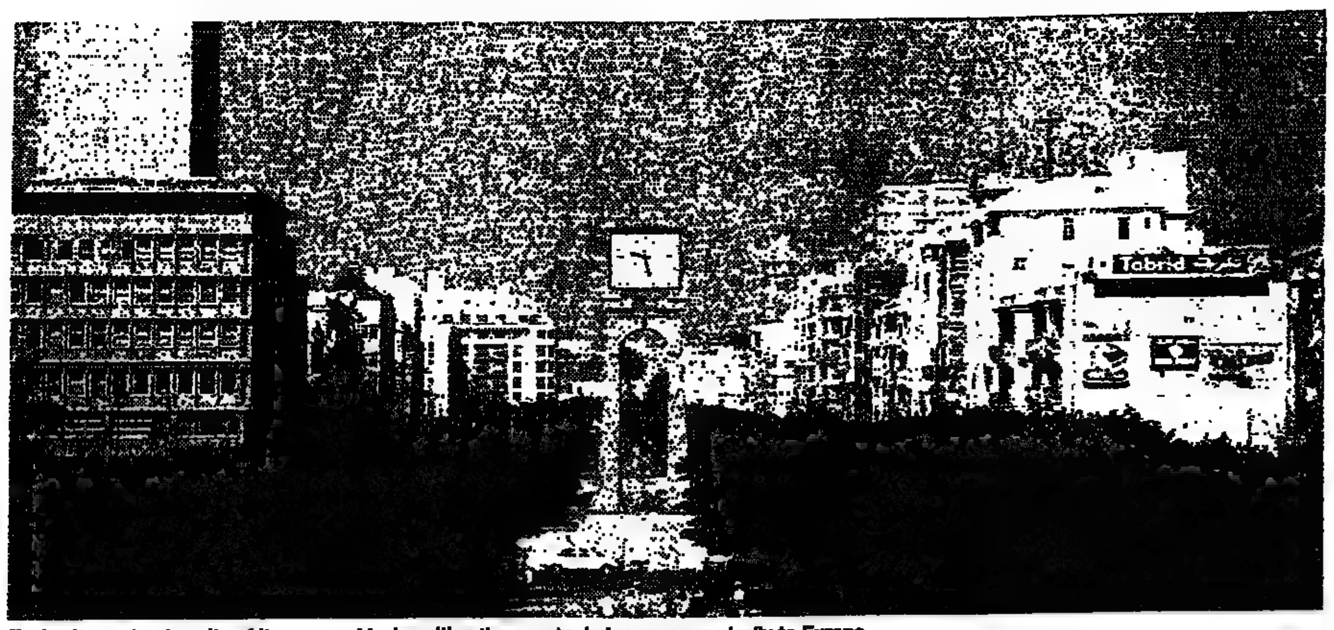
Some foreign investment agencies are watching closely, for instance, the development of the new investment code. Among the measures under discussion is the granting of a 10-year tax holiday for new manufacturing enterprises – but this would, in fact, be something of a disincentive given that most present investments are granted an indefinite tax holiday.

"We can understand that the government wants to make the code as economically beneficial as possible for the country," says a German investor. "But it has to remain as profitable as possible for us."

The Tunisian government is hoping, however, to move beyond the simple appeal of low wages and emphasise instead the relatively high education of Tunisians. "Workers are not just productive here, they have shown they can also produce high quality," says one diplomat.

While the country is scarcely going to turn down further investment in, for instance, textiles, it would rather see companies look to Tunisia to develop higher technology products, service industries or computing and software.

"Tunisia cannot count on remaining a low-wage economy," says Mr Nabli. "The level of living here is continually rising and our competitive strengths changing. We need above all for our economy to absorb more sophisticated technology."



Tunis city centre: in spite of its geographical position the country belongs economically to Europe

Mark Nicholson discusses trade relations with Europe

Mapping out an EC future

WHATEVER the map suggests, there is little doubt to which regional bloc Tunisia belongs economically. Last year Tunisia bought 71 per cent of its imports from the EC, to which it sold 77 per cent of its exports. The respective figures for trade with its Maghreb neighbours were 3.6 and 7.9 per cent. And much of that was with Libya.

For these commercial reasons alone, Tunisia's forthcoming negotiations with the European Community on a fresh co-operation accord are likely to overshadow whatever diligent efforts the government may make – and recently has certainly been making – to create something meaningful out of the four-year-old Arab Maghreb Union (which embraces Mauritania, Morocco, Algeria, Tunisia and Libya).

But Europe is Tunisia's touchstone near-neighbour for cultural reasons, too. For all its religious distinction, Tunisia is a deeply Mediterranean country and the aspirations of its swelling and sophisticated middle classes are little different from those of its neighbours on northern shores. "It is very important for Tunisia, and particularly for the government here, to feel itself a south European rather than simply a north African country," says one diplomat.

For these reasons, therefore, Tunisia and the EC look set to tie their knot more tightly by negotiating onwards from the financial protocols which have guided relations between the two since 1977 to a fuller accord. "We want to enlarge our relations to a complete and total collaboration," says one foreign ministry official. "Because we are condemned to live together, we want to make sure we do so as happily as possible."

By the end of the fourth and

It is very important for Tunisia, and particularly for the government, to feel itself a south European rather than a north African country

latest Tunisia-EC protocol in 1996, the community will have provided direct aid in the form of grants and credits worth around Ecu743m ($899m). A clutch of additional agreements have also been reached, covering co-operation in science and technology, the environment, telecommunications, energy and many other areas.

But most important for Tunisia will be the negotiations on trade. Eventually, both sides want to see the creation of a free trade zone between the EC and Tunisia, but in Tunisian eyes this is a long way off and much needs urgently to be negotiated well before then. Under the most optimistic assessments of some officials, the country will be in a sufficiently sturdy economic state to offer fully free trade with the EC only by about 2010.

Under the format for the negotiations, four rounds of "exploratory conversations" have now been concluded to establish the basic technical issues covering an eventual accord. Pending a mandate from the council of ministers, negotiations are likely to begin at the start of next year on a text which, with luck, could be ratified by the Twelve and in place by 1996.

The EC is following a parallel course already in talks with Morocco and hopes to add Algeria to the process as soon as its political stability will allow. A bloc-to-bloc approach from the EC to the Arab Maghreb Union has been a non-starter for several reasons, not least among which is Libya's continued diplomatic isolation over the Lockerbie affair.

But although both EC officials and their Tunisian counterparts consider overall relations to be excellent, mutual understanding high and the will to reach an accord clear, there are some very tough talks ahead. To begin with, say Tunis officials, the EC will have to stump up considerably more aid if it is to help put Tunisia on a steady enough economic footing to consider opening its economy further to EC goods. "There's a heavy price to pay and an effort to make," says one official. "We'll make the effort, but the community must help us to pay."

The thorniest issue between the EC and Tunisia will be trade, particularly in agricultural products, and most particularly, olive oil

The thorniest issue, however, will be trade, particularly in agricultural products, and most particularly on the issue of olive oil – Tunisia's most important agricultural export. At present, Tunisia is permitted a quota of 46,000 tonnes of olive oil under an agreement which expires at the end of this year. A fresh transitional agreement covering 1994-1995 is under discussion now, and Tunisia is insisting on a quota of at least 80,000 tonnes.

By Tunisian standards that is a modest request. In a bad year the present EC quota would account for less than half Tunisia's olive oil crop. In good years, like 1991-92, the country produces 270,000 tonnes. Furthermore, agriculture is one of Tunisia's most important employers – accounting for perhaps 40 per cent of the workforce – and environmentally vital crops. Olive trees are among the country's best defences against desertification.

But olive oil is also a key crop for almost all southern EC states, particularly Italy, Portugal, Spain and Greece. As a result, the present quota looks likely to stay more or less in place, pending agreement on the wider accord. "The Tunisians are saying to Europe, open up your olive oil market, and the Europeans are saying open up all the rest of your markets first. Neither can happen immediately," says one diplomat.

However tough these interim talks prove, though, Tunisian officials are quietly confident of the eventual outcome. The "pragmatic march of Europe", in the view of one senior official, will soon extend it across the present Efta countries and many in eastern Europe. "Eventually," he says, "membership of Europe will be a question of purely economic rather than geographical criteria. At that point we will inevitably be part of a broader Europe."

Francis Ghiles examines the future of the oil and gas sector

Bright hopes for energy

TUNISIA is, by Middle Eastern standards, a very small producer of oil and gas – 5.19m tonnes of oil last year and 231,000 tonnes of oil-equivalent in gas.

However, the royalties, in the form of gas, Tunisia receives from the trans-Mediterranean pipeline that carries Algerian gas to Italy, gives it access to three times as much gas as it produces.

The share of natural gas in meeting the country's growing requirements is steadily increasing.

Two factors will ensure that the share of gas in meeting Tunisian energy requirements continues to grow. First is the doubling, over the next five years, of the volume of Algerian gas Italy has contracted to buy, which spells a doubling of royalties to Tunisia; second is the development, by British Gas, of the Tunisian offshore Miskar gas field, the production of which will meet domestic requirements.

The last four years have also witnessed a surge of oil exploration and development as more international oil companies are attracted by the favourable environment Tunisia offers, including tax incentives, stable government and pleasant living conditions.

Conoco's senior director of exploration, Mr Alfred J Boulos, said recently: "Tunisians are intelligent and worldly wise, listen to reason and logic and take positive steps whenever justifiable." Such words well describe senior oil gas officials, be it in the state companies or in the ministry of economic affairs.

In the middle 1980s, such people were faced with having to meet rising domestic energy consumption when production from the country's two leading oilfields, El Borma and Ashtart, was declining. Consumption looked as if it might overtake production. New legislation was introduced in 1987. In particular, faster cost-recovery in royalties starting as low as 2 per cent were aimed at promoting the development of low- and medium-sized fields that had been discovered but not exploited in the decade or so before.

After five years of decline, production picked up in 1989 and has grown modestly but steadily ever since. The past two years have been marked by three important developments. The annual number of new wells drilled on and offshore has increased threefold to 22, the figure of investment by foreign oil companies doubled over the same period from $70m to $140m. The aim is to keep drilling activity around 20 annually to the end of the decade. Despite the rising consumption of energy, the increased exploration activity has just about maintained a reserve to production, at current levels ratio, of about 12 years.

The second important development was the agreement in December 1991 between British Gas and Enterprise Tunisienne d'Activites Petrolieres (ETAP), whereby the UK company decided it would spend $580m developing the offshore Miskar gas field. This field was discovered 15 years ago by the French company Elf and inherited by British Gas when it bought the US company Teneco in 1988. Among the reasons that made a gas field interesting in 1991 – when ti was unattractive to develop in the mid 1970s – were the fast development of Tunisia's domestic gas requirements. Gas today accounts for between 17 and 33 per cent of the country's energy requirements, depending on how competitive its price is with heavy fuel oil to fire power stations. The construction of combined cycle power stations, which produce electricity from gas, is increasing the need for gas.

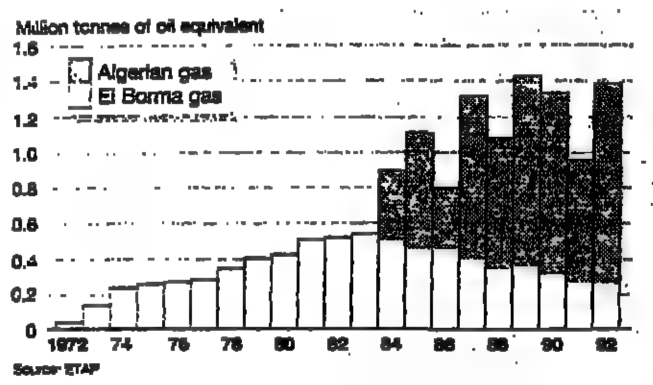
The Tunisians did much to lure British Gas. As production from Miskar will be too modest for export purposes, British Gas has been guaranteed the sale of all the gas it produces to the Tunisian domestic market. The gas will be paid for in hard currency and British Gas will be allowed to transfer profits out of the country. Further advantages include royalties which, since the law was changed in 1985-7, are now calculated on a flexible basis. They can be as low as 2 per cent or as high as 15 per cent depending on the profitability of the operation. Tunisian flexibility has proved worthy of the country's Carthaginian forebears.

Meanwhile, the 10th anniversary of the trans-Mediterranean gas pipeline was celebrated last month. The throughput capacity of the pipeline is being doubled to 24bn cubic metres and the work will be completed this summer.

The passage of this pipeline has become a central feature of the energy policy. Tunisia's reputation, and for that matter Algeria's, has been enhanced by the complete absence of disruption to the gas flow since operations started in 1983. There have been no disputes on tariffs or prices. No political dispute between Tunisia and Algeria has marred the operation. The seller has succeeded on more than one occasion in altering the price formula, but the flow of gas has not been interrupted.

The doubling of the Trans-Mediterranean is a vindication of the security of supply. It has proved a key factor in helping to launch the western trans-Mediterranean line, which will carry Algerian gas to Spain across Morocco and under the Straits of Gibraltar.

Gas consumption by origin



Source: ETAP

Francis Ghiles reports on a quiet revolution under way in the country

Agriculture is reborn

A QUIET revolution is afoot in the Tunisian countryside. Production of a wide range of foodstuffs – cereals, olive oil, fruit, vegetables, meat and dairy products – is increasing. The variety and quality of produce on offer in local markets and for export is growing.

Four consecutive years of good rainfall have played their part. But so have government policies, which in recent years have lent greater support to farming than at any time in the past 30 years.

Several factors lie behind what amounts to a rebirth.

- Long-standing efforts to improve farming techniques have borne fruit.
- Considerable efforts have been made to mobilise water resources.
- Life on the land is less harsh than before, thanks to improved roads, electricity and better access to education and health in remote areas.
- The state is divesting itself of some of the land it has held since French farms were "nationalised" in 1964. These 500,000 hectares of state land are among the richest in Tunisia.

Wheatfields in Tunisia no longer sprout poppies, which made them attractive to visitors in the spring but suggested low yields and poor use of fertilisers. The growing use of the latter has proved a key factor in improving yields and overall quality. Farmers are also mastering irrigation techniques, at a time when the amount of land under irrigation is growing fast. Improving their mastery of water is essential in a country whose resources are scarce and which suffers drought at regular intervals.

The olive tree remains the best instrument to stop the advance of the desert

The state has given strong backing to efforts to build dams. In recent years, however, small earthenware dams have been promoted, which are cheaper and easier to build and play an important role in arresting soil erosion. Erosion remains a serious problem that is being addressed in a number of ways, notably the planting of fruit trees in northern and central Tunisia and the renewal of the vast olive groves – the olive tree remains the best instrument to stop the advance of the desert in central Tunisia.

Life in the countryside is also improving for those who till the land. For more than two decades after independence life in the towns, with access to good facilities in education and health and subsidised food, was more attractive than tilling the land. As Tunisia liberalises its economy, allowing the price of foodstuffs to rise and gives farmers a better income, that balance is slowly shifting.

The leasing over the past three or four years of 100,000 hectares of some of the best land in the country, for up to 25 years to private investors, is introducing more capital intensive and modern crops to the land. These leases are renewable and joint ventures with foreign companies are being actively promoted. During the socialist experiment in the 1960s, these state domains were badly mismanaged. Then, and for the following ten years, the prices producers could charge were frozen, basic foodstuffs increasingly subsidised. The domains being leased can be large, such as a 1,000 hectare domain at M'Raissa, where Shell, in partnership with private Tunisians, is growing seedless grapes for export. Other domains have been split into smaller units with leases often granted to agricultural engineers who are growing crops new for Tunisia – winter strawberries and melons, asparagus and mushrooms. Some are raising rabbits, an unheard of activity here until recently, which find ready markets in the many hotels along the coast.

Tunisia has the finest collection of Roman mosaics in the world

The current improvement can be traced back to the reforms aimed at liberalising the management of the country's economy introduced in 1986. Prices paid to producers have, since then, improved 40 per cent on average. The cost of inputs has also shot up; fertilisers by 60 per cent, seeds a more modest 25 per cent and water 9 per cent annually. As subsidies on basic foodstuffs are reined in, the result is that resources are being reallocated towards a key sector of the economy in more rational fashion. The results are visible.

In 1991-1992 Tunisia enjoyed a positive food balance for the first time in two decades. Barley and hard wheat are in surplus, though a deficit remains in soft wheat. The amount of rainfall still dictates the size of the cereal crop, which can vary from 300,000 tonnes to 2.4 million tonnes. In a good year, foodstuffs account for 10 per cent of all imports, a figure that rises sharply in years of drought.

Some sectors have not followed the progress of others. Vineyards have suffered until very recently from under investment. A few years ago Tunisia nearly ran short of wine during the summer season – a Moslem country importing wine would have been a real embarrassment for the authorities. Had joint ventures with foreigners been encouraged earlier, Tunisia today could be exporting high quality wines.

Olive oil presents a unique difficulty, as the European Community imposes quotas. Italy is not shy when it comes to mixing Tunisian olive oil with its own and selling it as Italian oil. The production of olive oil is the main source of income for 100,000 families and helps provide income for 1 million people overall. It also helps the environment – olive trees are the best way of preventing erosion.

Two constraints, however, hamper the further development of farming. First is the ever-growing fragmentation of ownership, with 80 per cent of all farms boasting 20 hectares or less. The result is often poorly capitalised farms and a major brake on progress. The other constraint is age – the average Tunisian farmer is over 50. This weakness can to some degree be remedied if farming in the newly leased state domains is made more attractive.

As Tunisia is ever more self-sufficient in many products and seeks to export more food it is confronted with new difficulties. EC quotas are one, but also the lack of regular high quality control, the backwardness of packaging and marketing methods. The next battle will be fought on these fronts.

The 55m olive trees in Tunisia occupy one third of all arable land, writes **Francis Ghiles**

Oiling the wheels of the workers

THE olive tree has been a source of wealth, a symbol of peace and prosperity since time immemorial around the Mediterranean. In Tunisia, olives were grown well before Carthage was founded by Queen Dido in 814BC and the very name Zaytuna Mosque, which dominates the old medina of Tunis and houses one of the oldest Islamic universities in the world, means "olive tree". The production and trading of olive oil remains a quintessentially Mediterranean phenomenon.

Some olive oil is produced in Argentina and California but Italy, Spain, France, Greece and Tunisia – the fifth largest producer – account for the bulk of the 1.7m tonnes produced in the world every year. Of this figure, 75 per cent comes from southern Europe, the balance from Tunisia, with 7-10 per cent, Jordan, Morocco and Turkey.

Three sets of figures underline the central importance of this sector to the Tunisian economy. More than one third of all farms in the country derive more than half their income from the production and sale of oil; nearly 1m Tunisians draw part of their income from the same source. Between 1987 and 1992, olive oil accounted for 8 per cent of the value of all Tunisian exports and 42 per cent of the value of exports of foodstuffs.

The 55m olive trees the country boasts occupy one third of all arable land, notably in the arid central provinces around the city of Sfax where the poor soil could not accommodate other crops; the trees also provide one of the best means of fighting desertification. A further advantage is that the number of jobs generated by the olive oil industry puts a brake on migration to the cities.

The production of olive oil does, however, fluctuate strongly from 50,000 tonnes in years of drought to 270,000 tonnes in exceptional years such as 1992. Domestic consumption accounts for about 40,000 tonnes annually. The balance of requirements, about 110,000 tonnes, is made up by importing much cheaper sunflower and colza oil. Olive oil is four times as expensive as the mixture of olive and sunflower oil most Tunisians use for their daily requirements.

All Mediterranean countries recorded a bumper crop, something which occurs once in a generation

Tunisia cannot export all its surplus oil because its annual export quota to the EC is only 46,000 tonnes. Nearly 90 per cent of Tunisian exports go to EC countries. Italy alone absorbs more than two-thirds of Tunisian oil exports to the EC. Tunisia pays a tariff of Ecu5-10 per 100 kilogrammes of olive oil, compared to ECU55 for Moroccan and Turkish exports, for which there is no quota.

The glut of olive oil which followed the 1991-1992 crop has made life exceptionally difficult for the Tunisian Office National de l'Huile, which has a monopoly on collecting olive oil in the country and manages virtually all exports. World production last year reached a record 2.2m tonnes, as all Mediterranean countries recorded a bumper crop, something which occurs once in a generation.

Tunisia's record crop was not simply the result of excellent weather conditions but because of the improved farming methods and replanting of olive trees encouraged in recent years. Producers have also been encouraged by the prices paid by the Office National de l'Huile which have increased by half since 1987-1988.

The office has been obliged to stock olive oil and has been forced to borrow from Tunisian banks at market rates. Since 1990, the office no longer enjoys access to subsidised loans, part of the overall policy of rationalising economic management. Private companies have begun exporting olive oil but the main burden of selling abroad still rests very much with the office.

The reason why Tunisia cannot gain a bigger quota with the EC concerns the subsidies EC members are allowed to give their own producers of olive oil. Subsidies are extended to primary producers and to the olive oil processing industry.

Subsidies for the export of olive oil outside the EC are equivalent to 50 per cent of the value of exports and the EC has even started promoting the consumption of olive oil in such far away markets as Japan and Australia. Italy is also widely believed to provide bogus figures for its own production of olive oil. It imports Tunisian oil which it re-exports under Italian labels, notably to the US.

In its annual report for 1991, the EC Court of Auditors criticises the manner in which subsidies to the olive oil industry are distributed within the EC and suggests it is "unreliable". It also criticises the manner in which the International Olive Oil Council, which was set up in 1986, is managed. The EC provides 74 per cent of the budget of the Olive Oil Council. The EC Commission, however, has rejected such criticism.

The difficulty the Tunisians have in exporting more of what, for them, is a vital crop, illustrates the conflict of interest between Maghreb and southern European countries which centres on foodstuffs produced on both shores of the Mediterranean. But Tunisian officials argue that if the real figures of EC production and subsidies were available, their country would be able to gain an increase in its quota without damaging the interests of EC producers.

The broader question is whether it is morally justifiable for the EC to close its eyes to certain practices among its own members and at the same time limit imports from countries in North Africa who desperately require funds for projects aimed at stopping the advance of the desert and halting the exodus from the land.

Perfect Shangri-la: the Tamerza Palace in the desert is one of the most luxurious hotels in Tunisia

Francis Ghiles on the challenges of developing the southern provinces

New source of wealth from the sands of the desert

DEVELOPING THE southern provinces of Tunisia – running from the Algerian frontier around the Shott El Jerid, the salty flatlands which, during the hot summer months turn into a hard salty crust stretching for miles, to the port of Gabes, opposite the tourist island of Jerba – presents a unique challenge.

The western provinces of Tozeur, Gafsa and Kebili traditionally belong to the *bled siba*, the land of dissidence whose inhabitants led a nomadic life until the 1960s and seldom paid taxes to the rulers in Tunis.

Though often illiterate, the inhabitants of the Jerid and Nefzaoua region south of the Shott had a rich tradition of urban life and boasted one great source of wealth, the *deglet nour* or date of light, considered by connoisseurs the finest in the world.

During the past few years tourism has emerged as a new source of income but, even more important, is the development of fruit and vegetables such as melons and tomatoes, which are grown in greenhouses using the many local hot water springs and whose produce can be shipped to Europe between mid-November and mid-May when no EC quotas or tariffs impede their entry.

If not carefully managed, however, the fast development of such crops and the spread of new hotels could seriously threaten the environment and the balance of human resources of a fragile desert region.

The new face of Tunisian agriculture can be seen near Gabes, where a Tunisian agricultural engineer, Mr Nejib Zarrouk, has established a joint venture with a group of French businessmen who grow melons near Chinon in the Loire valley and market them through a company called Derby. Half the DT1.7m capital, of which DT500,000 is so far paid up, is provided by the so-called Beregovoy line of subsidised credit and administered in Tunisia by France's Caisse Centrale de Cooperation, the rest is spread among Tunisian banks, most notably the Tunisian Saudi Development Bank, Stusid.

An ambitious deep water drilling programme has revealed undreamed of riches in water

A long lease for the necessary three hectares has been secured from the Tunisian state and in 1992, the first year of activity, 220 tonnes of tomatoes and 76 tonnes of high quality melons were exported to France. Figures will more than double for the second season ending in May.

The Chenchou success story is a pointer to the future as the Tunisian state is leasing an ever growing surface of its 500,000-hectare domain, foreigners are allowed to invest in land and bright young Tunisian engineers are keen to start up their own business.

Thanks to an ambitious deep water drilling programme financed by the Gulf states and Saudi aid, undreamed of riches in water have been discovered. As the standard of living increases and more people establish irrigated crops, the authorities face two problems. The first is how to control irrigation schemes that are increasingly set up without permission, the second is how to drain water after it has been used.

Disappearing skill: dates must be hand-picked

Basket of plenty: the Nefta oasis is one of the biggest date producers

In traditional oases the date palms and the fruit and vegetable which grow below were set up on slopes to allow the water to drain away. Faulty drainage can have a lethal effect as it allows salt to accumulate, a sure way to sterilise the land and kill date palms.

Ensuring proper drainage is essential, particularly at the 1,152-hectare oasis of Rjim Maatoug, a new oasis being created west of Kebili and financed by EC aid worth DT15m, Italian aid worth DT7m and DT10m worth of Tunisian funds. The high cost of the Rjim Maatoug project is justified in terms of the broader security of an area close to the Algerian frontier. When completed, the project will help settle local nomadic tribesmen. The project is being managed by the army, together with civilian authorities, a combination that in the harsh and difficult to reach surroundings appears to be working well.

The fast development of tourism poses a different challenge. Quite apart from the danger of spoiling a unique landscape with hotels whose style jars surrounding buildings, hotels attract labour away from farming and that means essentially looking after date palms. This is a very labour intensive and skilled job. The palms must be individually pollinated by hand, the dates hand-picked. The sight of young boys scrambling up date palms may be picturesque. Such skills, however, are becoming less available, but essential for future crops.

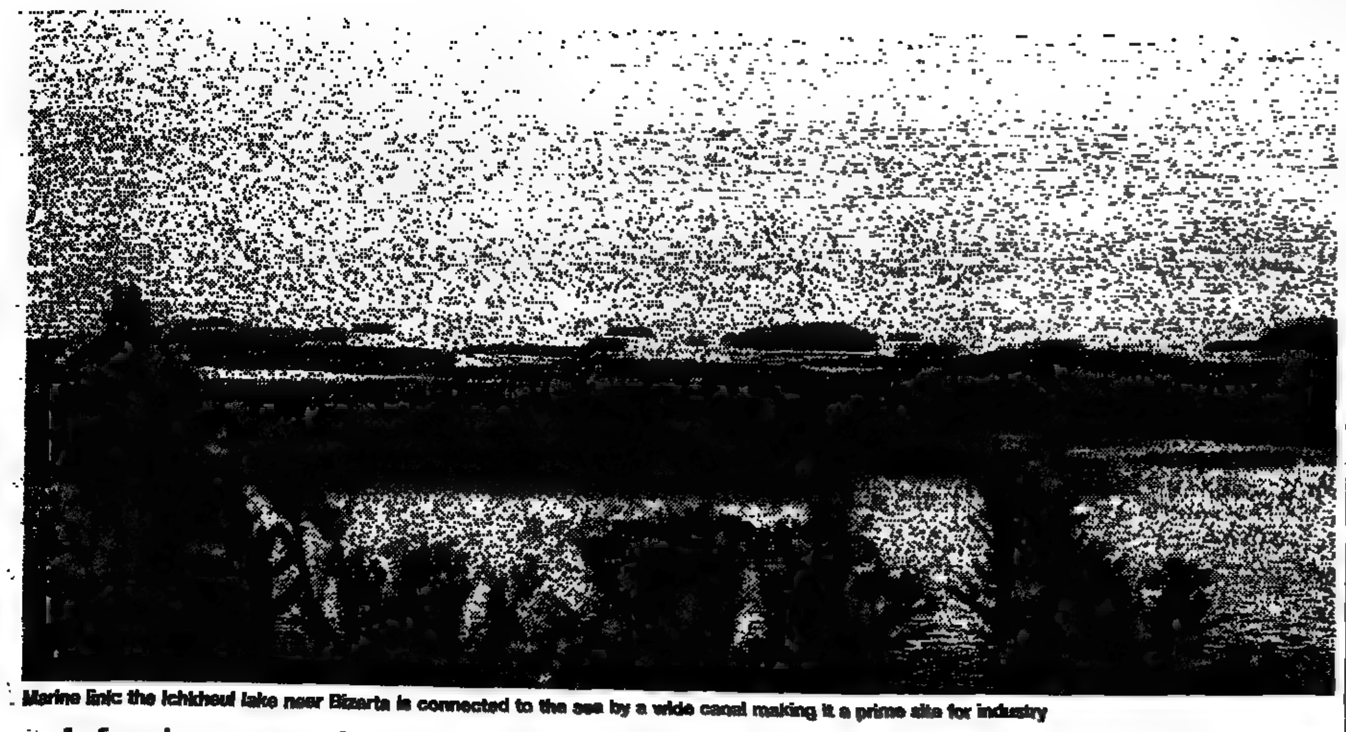
The skill of scrambling up date palms is fast disappearing among young boys

A further challenge is to improve the marketing of dates abroad. Despite the high quality of the *deglet nour*, half the dates the Jerid produces are marketed through a few traders in Marseilles, depriving Tunisia of direct access to many markets. Packaging is way behind modern international standards. In other words, Tunisia lacks access to a good international distribution network. Dates are the kind of farm produce from which the country should be earning good foreign income. They are labour intensive and do not compete with any EC equivalents.

Many older oases have been virtually abandoned, their intricate *foggara* water channels ill kept, if not abandoned. Inhabitants of such remote places are often not keen to work in hotels.

In the mountain oasis of Tamerza due north of Tozeur, the only local baker refuses to deliver bread to the Tamerza Palace, a hotel which opened last year. On Sunday he remains closed forcing the hotel to send for its bread 20 kilometres away in Redeyef. People from Tamerza show no interest in jobs provided by the hotel, but small settlements further afield are less disdainful of such jobs.

Developing this remote area of Tunisia presents a unique set of challenges. Three constraints, which are intimately related, touch on water resources, human skills and the environment. They must be taken into account if serious damage is to be avoided. Mistakes here carry a heavier price than in the more temperate northern or maritime provinces.



Marine link: the Ichkheul lake near Bizerta is connected to the sea by a wide canal making it a prime site for industry

A fresh generation is coming of age in Bizerta, says **Francis Ghiles**

New age dawns in old town

FIVE years after Tunisia gained independence from France, in 1956, the town of Bizerta was the scene of a bloody battle which pitted General de Gaulle against President Habib Bourguiba. Mr Bourguiba was keen to regain control of the important naval base France had built after it occupied the country in 1881, and which it was unwilling to hand back.

For 75 years, this former privateering port ranked, along with Mers El Kebir in western Algeria and Toulon, as one of France's key naval bases. The town retains most of its colonial architecture, a port dominated by old fortifications, and its old "medina" (Arab quarter). Only four hotels have been built on the nearby corniche – tourism has not ruined the town.

Bizerta was cosmopolitan thanks to the mix of tens of thousands of French army and navy men and officers, Sicilian fishermen, Maltese handymen, a smattering of Greeks and White Russian exiles fleeing the 1917 revolution. Unlike Tunisians elsewhere, the people of Bizerta did not have to fight to make a living. Few of them became doctors or lawyers. They did not much care for Mr Bourguiba who did not bother to hide his contempt.

Times are changing and no man could symbolise the new mood better than Mr Mohamed Ben Rejjeb, who was appointed governor two years ago. Mr Ben Rejjeb is a hands-on governor, a tireless fighter' who seems to be present on every front coaxing people, pushing others, getting Bizerta's needs noticed in the capital which, psychologically, still feels more distant than the 60 kilometres separating the towns.

Three factors explain this awakening of Bizerta and its rich farming hinterland. First, a new generation of "Bizertins" is coming of age, well-educated people who want to invest in industry and farming. They have no nostalgia for an age they never knew. They know that the port and other industrial facilities, many still unused, which dot the town and the shores of the large inland lake behind Bizerta – connected to the sea by a wide canal – offer prime industry sites. A free trade zone, an idea which appears to make sense, both because Bizerta is strategically placed between the eastern and western Mediterranean and because Tunisia is liberalising its economy and actively promoting foreign investment, is expected shortly. This zone will be managed by a private joint venture associating Tunisian and foreign capital. A second trade zone is being set up in the southern port of Zarzis, close to the Libyan frontier.

The industrial sector is strong and varied. There is the country's primary oil refinery, steelworks at nearby El Fouled, a string of textile factories – many started in the mid-1970s by German and French companies which import the fabric that is then re-exported as jeans, shirts and hosiery. Expensive "Van Lack" German shirts are made here.

Bizertex manager, Mr Ferinand Terburg, who has lived in Bizerta for 15 years, is looking forward to the company soon opening its third factory in the town. He praises his workforce's standard of education and professional skill, saying that 18 per cent of the 500 women working in the factory are involved in quality checking. He feels the political stability Tunisia enjoys, the three-year agreements negotiated between the trade unions and employers' federation, provide a steady environment where he can work. He adds that government officials are more willing to consider changes to existing rules and regulations than they were a decade ago.

More ambitious plans are afoot in the farming town of Mateur, just inland from Bizerta, where Tunisia's leading producer of electrical cables, the Chakira Group, has started production of electrical harnesses for cars in a plant where, until 1986 when it went bankrupt, Renault cars were assembled. The Chakira group already produces harnesses in another factory in Tunisia, part of a joint venture with General Motors.

Other companies in the group are involved in manufacturing printed circuits and high-voltage, medium-voltage and low-voltage power cables. Other activities include manufacturing kitchen equipment such as high-pressure cookers and "Tefal" saucepans. Such a company may be small by international standards but it is symbolic of the internationalisation of the economy. Indeed, it is investing abroad and will this summer start producing electrical harnesses in Portugal and in Egypt.

The region of Bizerta is also attracting investment in farming. Natural advantages include more regular rainfall than elsewhere in the country and good land. Ninety per cent of all arable land in the region is in the hands of private farmers, which means the mismanagement of the vast public domains created in the 1970s out of land expropriated from former French *colons* has been avoided. What state land there is is being conceded on long leases to private companies.

Typical of new farming businesses is the joint venture established by a Tunisian company with one of Italy's largest plant and flower companies, Resteya Italia, whose home base is Treviso, north of Venice. Geranium mother plants are imported to Bizerta in the autumn and cuttings are taken a few months later and rebedded. When they have grown roots, they are flown to Treviso. Similar attempts are being made with artichoke plants which, if successful, could prove lucrative. Such ventures can make use of the region's temperate winter climate and cheaper labour costs than in Europe.

Memories of the Jewish past are being unveiled, says **Francis Ghiles**

Covers come off real history

EIGHTEEN months after succeeding Mr Habib Bourguiba as Tunisia's second president, Mr Zine el Abidine Ben Ali paid a state visit to France. All the usual trappings of a state visit were in evidence, including a few hours spent at the Saint Cyr Coetquidan military academy which the young officer had attended 30 years earlier. More unusual was the restaurant at which Mr Ben Ali chose to have dinner on his first night in Paris – Chez George de Tunis, Rue Monmartre, is a typically Tunisian Jewish restaurant, of which there are many in this arrondissement of Paris.

Last September, the chief rabbi of France, Mr Joseph Sitruk, was invited back to the country where he was born. The rabbi was shown round the presidential palace by the head of state in person and the news was featured on prime time television.

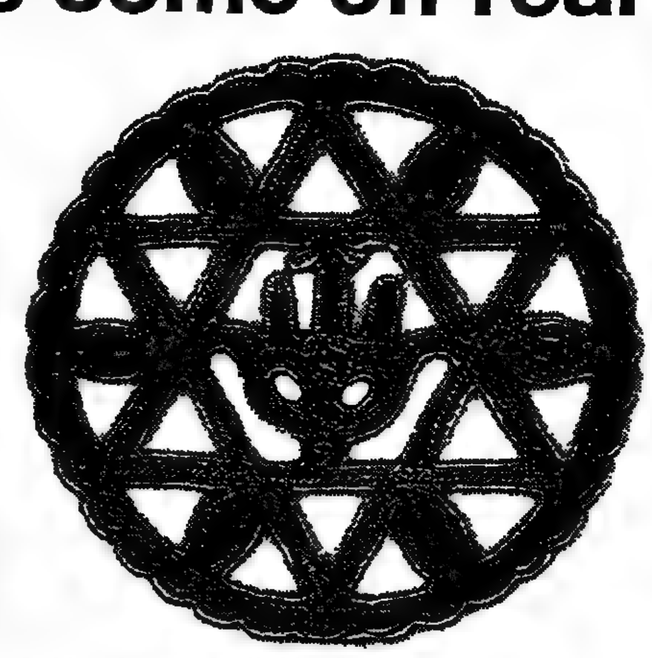
This gesture marked a break in the *arabisme* of the past two decades. It brought back memories of Mr Bourguiba's bold suggestion, made in Amman in 1965, that only when the Israelis and the Palestinians sat down together would there be any hope for peace.

To mark the fifth anniversary of his accession to power last November, the president attended a ceremony where Tunisian history was evoked with a greater measure of truth than ever before. Never since 1956 had Tunisian people been reminded that a majority of their countrymen were Christians until just over 1,000 years ago. The vast majority of this Sunni Moslem country had no idea that Shi'ite Islam had flourished under the Fatimid dynasty which ruled in the ninth and 10th centuries. The menorah candlestick was paraded, a reminder of the more than 2,000 years of Jewish presence in the country.

Tunisia's personality is complex, its richness lies in its diversity. Legend has it that the Ghriba synagogue of the southern island of Jerba was built around a stone prised from the eastern wall of King Solomon's temple in Jerusalem brought by a group of Jews after its destruction by Nebuchadnezzar in 586BC. The synagogue, according to another account, takes its name from a Jewish woman who reached Jerba, carrying a stone in her hand. She became known on the island as *al Ghriba*, the stranger, who, after living an exemplary life, died, leaving no trace.

The annual pilgrimage held in memory of Rabbi Meir Ba'al Haness and Rabbi Shimon Bar Yochal takes place annually a few weeks after Passover. This year it attracted 2,000 Jews, the largest number in decades.

Seven hundred of an estimated 2,000 Jews in Tunisia live on the island, happily co-existing with the local inhabitants who belong to the Ibadite rite of Islam which is the dominant rite in Oman and in the southern Algerian town of Ghardaia. Ibadites in north Africa are traditionally tolerant, learned and excellent traders. Indeed, hospitality as they practise it is described by the great Arab poet Omar Khayyam as deeply etched on to Jerba – "the clay whispered to the potter who pounded it; remember I was once as you are, do not handle me roughly."



Jewish symbol on ancient Tunisian silver jewellery

History recalls the presence of Jews in Tunisia, notably in Carthage nearly 2,000 years ago. A large necropolis was discovered in the 1970s, probably the burial ground of those Jews descended from others who had taken refuge in north Africa after the second destruction of the temple by the Roman emperor Titus in 70AD.

Unlike the events in many Arab countries after the creation of Israel the Tunisian Jews, who at the time of independence numbered around 50,000 and had acquired French nationality, did not leave the country under duress. Moving to France was natural as that country offered greater opportunities.

One Tunisian Jew who did stay and is now a successful businessman is Mr Roger Bismuth, who still lives in the suburb of La Goulette, just outside Tunis, an area which in colonial days was synonymous with Jewish and Sicilian ways of life.

Following the French Great Rabbi's visit, the Tunisian authorities lifted the freeze on funds belonging to Tunisian Jews. That money can now be spent in Tunisia.

Official recognition of the diversity of Tunisian history is taking other forms. The role of the former rulers of Tunisia, the "beys", is now officially recognised. Since the last bey, Lamine, was deposed in 1957, the very memory of their existence had been erased. One of their palaces near Tunis, at Ksar Said, has recently been restored.

All these gestures come at a time when Tunisian leaders are liberalising the management of the country's economy. Foreign investment is being encouraged and some Tunisian entrepreneurs are now investing abroad. No one expects former Tunisian Jews to come back and settle in Tunisia but they could prove useful relays in marketing Tunisian goods abroad or joining with Tunisians in joint ventures in the land where they lived for so many centuries. International marketing is one of the skills which still eludes many Tunisian businessmen.

Former Tunisian Jews are well established, notably in Paris. Most of them have fond memories of Tunisia – for centuries they shared many cultural values not least music and many business interests. As the Tunisian film, The Man of Ashes, so eloquently showed, the cultural symbiosis between the two communities ran deep. A number of Tunisian families played an important role in the struggle for independence.

During the Vichy and the Italian-German occupation, 1940 to 1943, many Tunisian Jews found refuge and help with their Moslem rather than their French brethren. Mr Ben Ali shares such memories of close relations with Jews with many Tunisians. His childhood days were spent in Hamman Sousse during the Second World War.

Closer links with the Jewish community, if they develop, could have other beneficial consequences. They could encourage moves to liberalise the economy further. They could force greater transparency in economic operations. Such links could encourage foreign investment and trade, greater freedom of expression.

Mr Ben Ali's welcoming hand in no way belies his support for the Palestinian Liberal Organisation. The president has said he would be happy to host a meeting between the PLO leader Mr Yasir Arafat and the Israeli prime minister. The president's policy might simply help Tunisia recover its memory and thus bring it closer to Europe.

Francis Ghiles on the role of women in society

Escaping Islam's past

ONE OF the key reasons President Zine el Abidine Ben Ali is opposed to granting legal recognition to the al Nahda (Renaissance) opposition party – whose creed is Islam – is fear that such a move risks undoing what many Tunisians regard as their country's proudest achievement since independence; the corpus of laws which, in 1956, abolished polygamy and gave Tunisian women rights not enjoyed elsewhere in the Arab world.

The "Personal Status Code" is, arguably, former president Habib Bourguiba's greatest single achievement. It was promulgated the year Tunisia gained independence from France, a year before the new constitution that abolished the monarchy.

The rights of women were further consolidated last August by the national assembly. In the case of divorce, for instance, custody no longer goes automatically to the husband. Violence against women within the family is punishable, women can request a passport without going through their father or husband and the state helps divorced women to secure alimony.

Since 1956 a policy of family planning has been in place. In the early 1960s free and confidential advice and prophylactics were made available to women. Combined with efforts to promote health and education, these policies reduced population growth from 3.2 to 1.9 per cent. The birth rate has declined from 45 to 25.4 per thousand, mortality from 15 to 6.1 per thousand. The illiteracy rate has been brought down from 87.7 per cent to 35 per cent, though the figure is higher among women in poorer country areas.

Women are increasingly visible in teaching, medicine, architecture – in factories as workers, engineers, managers and owners. But Tunisian politics remains very much a man's world, despite some remarkable exceptions, including Fethia Baccouche and Hanoun Houda, who are deputies, two secretaries of state and a handful of senior civil servants such as Fayza Kefi, whose presides over the Union Nationale des Femmes de Tunisie.

Most educated women have no lost love for the teachings of radical Islamic groups. Though al Nahda leaders have said they accept many of Mr Bourguiba's inheritance, women are mindful of the often violent track record of some supporters of the party, notably the throwing of acid in the faces of university students on the campus in Tunis.

History teaches women that radical Islam has not been sympathetic to the idea of equality between sexes or to their presence in public places.

The history of modern Tunisia suggests that the emancipation of women has been a key factor in explaining the country's social and economic progress since 1956.

Economic progress has provided a means of emancipation which is far from negligible.

Women are increasingly visible in architecture, teaching and medicine

When a new law in 1973 allowed joint ventures to be established for the first time in Tunisia with offshore tax status, a string of factories set up across the country, giving many young women their first taste of freedom.

The simple act of walking to work a few hundred yards from home, away from the all powerful mother, broke many taboos. These women were not well paid but what little they earned allowed them to build up a dowry and gain a measure of freedom in choosing their husband. Once married, many were able to claim help from the state to buy a flat.

Women have 25 per cent of all jobs in Tunisia, 35 per cent of jobs in industry, 22 per cent of jobs in the growing services sector, 40 per cent of jobs in agriculture, where they manage nearly 10 per cent of all farms. They are present everywhere, seldom veiled, and give Tunis and other major towns a strong Mediterranean feel.

Last year's laws are ahead of the social mores of many Tunisians, yet they also reflect the fast changing attitudes affecting many sectors of society.

About ten per cent of new companies are created by women, according to Aziza Dargouth, who runs the Cabinet de Prospective Sociale consulting agency.

Hayet Laoumi had her first job as secretary in a shipping company, 26 years ago, after training to become a primary school teacher. She now owns and runs Stumar, a company with turnover of $3m and is active in stevedoring, conveyancing and forwarding. She concedes it has not been easy for a woman to win acceptance in such a milieu, but as she moves around her office, cigarette in hand, firing orders, inquiring whether a particular container has arrived, the feeling Tunisia is undergoing a quiet revolution is overwhelming.

Sarah Sahdallah owns and runs a porcelain factory, Ibtissem Kamoun has become one of Tunisia's largest producers of ice-cream, Rashida Rouissi exports fruit and vegetables. Scores of others are involved in textiles, ice cream and software.

Such people would not quarrel with the policy of the Minister of Education, the highly respected Mohammed Charfi, who is having references in school text books that men are superior to women and adulterous women be stoned expurgated. The books of Hassan El Banna, the founder of modern fundamentalism, have been withdrawn from schools and public libraries. To western critics of such moves, many Tunisians point out that wealthy Saudis have, for the past two decades, been subsidising the printing and distributing of books offering the most conservative interpretation of Islam. Why should they be criticised for trying to promote more liberal views?

Educated Tunisian women are well aware that some of their sisters support al Nahda. They agree with attempts to liberalise the economy and are convinced economic growth and a more broadly liberal society are the only serious ways to fight radical Islam. They are fearful of the possible spillover effects of events in neighbouring Algeria and Egypt.

There are fears that Tunisia could be about to lose its charm

Tourism's unattractive side

TUNISIA'S tourist sector has grown quickly in recent years. Capacity has doubled to 140,000 beds since 1980 and new hotels under construction and building permits suggest that figure could rise to 200,000 by 1998. Investment in new hotels nearly doubled to Dinars 200m between 1990 and 1992, with more than 3m visitors traveling to the shores of North Africa's smallest country every year, earning it between Dinars 830m and 930m.

Tourist receipts cover between 50 and 100 per cent of the trade deficit, amounting to about one fifth of exports of goods and services. The sector accounts for 5 per cent of GDP and 5 per cent of all investment. The jobs its creates – 40,000 directly and 150,000 indirectly – are welcome in a country with few natural resources.

This success story does, however, have its less attractive side. An ever growing number of Tunisians are wondering what will be left of their coastline as they watch the inexorable advance of concrete in places like the island of Jerba. They also wonder what will be left of Hammamet, already the busiest tourist area in the country, when another 13,000 beds are added by the massive Hammamet Sud development.

Tunisians with long experience in this sector worry about what they see as the "cheapening" of the Mediterranean's cheapest destination for package tour travellers. They say the strategy encouraging growing numbers of beds to be built in hotels with low occupancy rates except in summer is fundamentally flawed. Such a strategy gives international tour operators, who already dominate the Tunisian market, an ever stronger hand.

Critics say that some figures are misleading. The tourists who really matter are Europeans, but the figures here have not changed much since the late 1980s – 1.6m to 1.8m annually. The balance is made up of Libyans and Algerians whose presence is either fluctuating or at times unwelcome. Critics say the policy of subsidising interest rates on bank loans for new hotels should be curtailed. They also say that – despite official encouragement to young entrepreneurs – the cost of money means that only wealthy Tunisians can afford to build new hotels. The sector has attracted many new rich Tunisians whose love of bricks and mortar is far above any professional capacity they might have to manage a hotel.

The critic's fears are borne out by what is happening in Tabarka, a small port lying close to the Algerian frontier. A massive new development of ten thousand beds is under way, three thousand of which have been built. The style of new hotels, such as the Mehari Beach, look like a pale imitation of California. The size of the new buildings sit uncomfortably with the small houses in the town, which is surrounded with coark oaks at the foot of the Kroumir mountains.

Activities are more varied here than in any other Tunisian resort. Golfers enjoy a spectacular new course virtually all year round, sailors and divers are attracted by the summer months. There is boar hunting in autumn and winter. Is it wise, critics ask, for the state to spend TD250m in infrastructure, including the cost of a new airport? Would it not have been more judicious to build a fast road to Tunis and cut the time of travelling to the capital from three-and-a-half to one-and-a-half hours? This would have encouraged a flow of visitors throughout the year, quite a part from the benefits it would have brought local farmers.

The consequences of careless development is increasingly visible in the south, where small oasis such as Douz are being ruined by hotels whose architecture destroys the very character of what is a uniquely fragile desert environment. In nearby Tozeur, new hotels ignore local architectural style. Yet, due north of Tozeur, in the mountain oasis of Tamerza, an architect, Mr Foued Elleuch, and a hotel manager who knows the region well, Mr Mouldi Hached, have produced the perfect Shanghri La. The architecture of the Tamerza Palace blends perfectly with the crumbling desert mountains against which it is set. It sits dramatically above the abandoned village and oasis of Tamerza.

The interior is a masterpiece of simple design, well suited to the barrenness of the desert, which sprawls beyond its walls. The service is excellent and the food delicious. The hotel is attracting discerning travellers. Its success raises key questions about the direction Tunisian tourism will take.

Either the authorities want to encourage the building of smaller hotels tailored to a specific clientele, who have money to spend, or they will continue to encourage the ever growing spread of uninspired architecture; hotels for mass tourism whose foreign earning power is increasingly in doubt and whose presence is destroying many areas of the country.

In the book "Medinas" recently published by Dar Ashraf Azouz, the French architect, Claude Santelli, raises a cry of alarm about the number of old, colonial buildings being pulled down. Roman ruins are also being desecrated, such as the pier at Thapsus.

Francis Ghiles

BUSINESS GUIDE

The country and climate
Tunisia lies on the north-east corner of the Maghrib, less than three hours from London. For more than 2,500 years, since Queen Dido arrived from Tyre to found Carthage, which today is the residential suburb of the capital, Tunis.
The climate is hot in summer (often up to 40 degrees C in Tunis, with higher temperatures inland and in the south), temperate in spring and autumn. The north is often windy and wet in winter, the climate more Continental as the visitor travels inland towards the Algerian frontier. The deep south of the country is true desert climate, more pleasant to visit in the winter and spring than in summer.
The Tunisians remain very much as Thomas Shaw, the British traveller, wrote of then in the early 18th Century: "The most civilised people who inhabit the coast of the Mediterranean. They addict themselves to trade and commerce, which induces them to cultivate the friendship of Christians."

Getting there
Most leading Western airlines fly to Tunisia. GB Airways and Tunis Air have direct flights from Heathrow or Gatwick six days a week. Visas are not required for UK and most other western European and American visitors. The dinar currency cannot be bought outside Tunisia.

Business hours
Government offices work a six-day week closing on Friday and Saturday afternoons and Sunday. Banks and private companies work a five-day week. Tunis is virtually closed down during August.

Car hire
Cars are easy to hire at principal airports and hotels but are expensive. Do not expect them to be in perfect condition. Tunisian roads are being improved but local driving is, at best, erratic.

Hotels
In general they are cheap and easy to find. The state has sold off virtually all its hotels. Tunisia essentially attracts package holidaymakers. Some hotels offer good service – the Abou Nawas, Africa and Hilton in Tunis, the Abou Nawas in Gammarth, and the Syphax in Sfax. The Jerba Menzel on the island of Jerba and the outstanding Tamerza Palace in the desert mountain oasis of Tamerza offer excellent service and food and, for the latter, an extraordinary setting.

Eating out
"Tunis is a land of liberty," wrote Chevalier d'Arvieux, the French diplomat, three centuries ago. "Religion disturbs no one; they pray God when they must, fast when they cannot do otherwise, drink wine when they have money, get drunk when they drink too much and no-one finds any harm in it."
Tunisians love good food and drink and the choice of restaurants is large. In Tunis, L'Astragale and La Closerie are top of the range; the Dar Jeld offers traditional Tunisian dishes such as "couscous" in a tastefully restored traditional house in the old medina. Chez Slah and Le Cafe Vert in the suburb of La Goulette serve excellent fish; the Cercle Italien and Paradiso good Italian and Tunisian food; Cesar, Chez Nous and Le Strasbourg reasonable French food. In nearby Sidi Bou Said, L'Atlantide is good. Further north, in Gammarth, Le Golfe is pleasant. On the corniche in the port of Bizerta, 60 kilometres north of Tunis, L'Eden offers good food in pleasant surroundings. In the deep south, the food at the Tamerza Palace is outstanding.

Arts and crafts
The variety of good traditional crafts in Tunisia is limited. The Office de l'Artisanat, Avenue Mohammed Cinq, offers the best choice to those who are not specialists and do not wish to bargain for hours.
Tunisian carpets (Mergoum or Kairouan weaves) remain attractive, well made and very reasonably priced. Old silver jewellery is difficult to locate but can be found in the old medina of Tunis.
For those interested in Muslim architecture, the Association de Sauvegarde de la Medina will be happy to show visitors around some of the old houses and shrines of the city. The Bardo museum has the finest collection of Roman mosaics to be found anywhere. One of the palaces of the former rulers, the beys, at Ksar Said, has just been renovated and opened as a museum.
There are many private art galleries in a country which boasts some fine modern painting. Among the best are Cherif Fine Arts and Ammar Fine Arts in Sidi Bou Said, Gorgi Gallery in Mutuelleville, the Medina Gallery near the Dar Jeld restaurant in the old medina, Chiyem Gallery and the Arts Gallery, both in the new district known as El Menzah Six.

Economics
For economic information about Tunisia, there is little outside specialised publications such as the Conjoncture Review, edited monthly by the ministry of economic affairs. Despite recent publications such as L'Economiste, information in the local media is usually mediocre and often inaccurate.

Books to read
All principal guide series have a volume devoted to Tunisia. For a lively account of the country's recent political history, Aziz Krichen's Le Syndrome Bourguiba published by Ceres Productions in Tunis is useful.

Francis Ghiles

Hanson softens on voting rights

By Norma Cohen, Investments Correspondent

HANSON, the Anglo-US conglomerate, said it may be prepared to give in to pressure from shareholders and retract proposals limiting their ability to influence annual meetings.

Mr Martin Taylor, deputy chairman, said it was too late to remove the proposals from the ballot for an extraordinary meeting to be held on June 25.

He said, however: "When we come to review our articles next year we will see if they need to be changed."

Mr John Rogers, secretary to the investment committee of the National Association of Pension Funds, said the group had received similar assurances from Hanson.

The proposals have provoked a storm of protest from two investor groups, the NAPF and Pensions Investment Research Consultants, which advises shareholders on corporate governance issues.

Ms Anne Simpson, PIRC managing director, is urging investors to vote against the proposals. "Companies should be finding ways to improve their accountability to shareholders, not restricting their existing rights. We consider it extremely important that Hanson does not set a precedent on this issue."

Some shareholders have complained that not only do the proposals severely curtail their legitimate voting rights, but that Hanson has proposed them in a fashion which makes voting against them difficult.

The offending proposals are contained in general amendments which seek shareholder approval of a scrip issue – supported by investors – as well as providing for some board changes deemed to improve the group's corporate governance.

The new rules, which shareholders will vote on at an EGM, will eliminate the right of shareholders to nominate a director to the board unless backers represent at least 10 per cent of the vote.

Also, shareholders will lose the right to propose amendments to resolutions at the meeting unless they represent 5 per cent of the share capital. In addition, the chairman will have an explicit power to refuse to call for a poll on any item by shareholders which in his opinion is "irrelevant" or "vexatious".

NEWS DIGEST

Business Technology £6m in red

RESTRUCTURED Business Technology Group, which sells and services office equipment, announced pre-tax losses of £6.31m for 1992. Losses last time of £7.44m have been restated in accordance with FRS 3.

Turnover amounted to £20.2m (£42.4m) and the pre-tax result was after a loss of £271,000 on disposal of fixed assets, a £3.82m loss on the sale or termination of businesses, and £792,000 of costs associated with the reorganisation of the group's activities.

Losses per share were 32.7p (38.4p).

Sharp decline to £0.22m for A Cohen

A reduction in pre-tax profits from £783,000 to £215,000 was announced by A Cohen for 1992.

Turnover for the company, which makes non-ferrous metal ingots and is involved in the reclamation and trading of recyclable material, declined to £78.4m (£83.7m).

The company blamed recession in all its markets for the result and the large imbalance between demand for and supply of aluminium.

The deficit after tax was £512,000 (£343,000), equivalent to losses per share of 31.68p (21.2p). The proposed final dividend is maintained, however, at 3.4p, giving a reduced total of 6.8p (10p).

Somic returns to the black with £81,000

Cost reductions enabled Somic, a maker of yarns and woven fabrics, to return to profits in the year to March 31 with £81,000, compared with losses of £114,000.

Mr Richard Blackburn, chairman and managing director, said that turnover remained depressed but planned reductions in costs had helped ensure a return to profits in the second half.

The result was also helped by higher investment and interest income of £106,000 (£73,000).

Turnover was £3.59m (£3.5m). Earnings per share were 3.86p (2.83p losses) and the proposed single final dividend is 1.5p (1p).

AF Bulgin losses increase to £212,000

Higher exceptional costs contributed to pre-tax losses increasing from £107,000 to £212,000 at AF Bulgin, the electrical components maker, in the year to January 31.

Directors said that the year had been extremely difficult, but trading had improved in the first three months of the present year at all three sites.

Two purchases had been made since the period end, with one already having an effect and the benefits of the other expected later in the year.

Turnover was £12.6m (£13.2m) and losses were after exceptional costs of £141,000 (£71,000).

Losses per share came out at 0.76p (0.4p) while an unchanged single final of 0.1p is proposed.

Write-offs behind Beauford's downturn

Pre-tax losses at Beauford Group, the manufacturer of materials handling equipment and machine tools, leapt from £3.59m to £26.4m in the 1992 year.

Of the loss, almost £21m related to goodwill written off under new accounting standards and had no effect on cash or net assets, the company said.

Turnover was down £4m to £34.1m. At the operating level losses amounted to £2.46m (£18,000).

Net interest payable fell from £2.21m to £1.72m as borrowings were cut from £17.5m to £11.7m. Losses per share were 254p (33p).

Vtech shows sharp decline to $8.5m

Vtech Holdings, the Hong Kong-based electronics, computers and telecommunications group, announced reduced pre-tax profits of $8.5m (£5.5m) for the year to March 31. Profits last time amounted to $24.6m.

Turnover edged ahead to $565m ($561m) but the pre-tax result was affected by lower profits of $2.2m ($16.8m) on the sale of investments.

Earnings per share fell to 2 cents (15.9 cents) and the final dividend is omitted, making 1 cent (7 cents) for the year.

RCO expands 6% to £2.41m

RCO Holdings, a supplier of integrated site support services, announced a 6 per cent rise in pre-tax profits from £2.27m to £2.41m for the 27 weeks to April 4.

The interim dividend is increased to 4.95p (4.62p) on earnings per share of 14.71p (13.87p).

Hambros Inv Trust net asset value up

Hambros Investment Trust had a net asset value of 47.11p per share at March 31 against 46.44p six months earlier and 46.78p at the previous year end.

Net revenue for the 12 months fell to £31,843 (£49,065). Losses per share were 0.02p (0.01p earnings).

Oriflame raises £4.4m in placing

Oriflame International, the cosmetics manufacturer, is raising £4.4m through the placing of 1.75m shares, representing 3.3 per cent of the issued share capital, at 250p.

The shares are at present held as treasury shares.

Government to restrict incentives on BT sale

By Peter John

THE GOVERNMENT will today announce the price for the first instalment of its £5bn BT stake sale and will take a harder line on incentives than in previous privatisations.

Discounts for private investors will be 10p a share for the second and third instalments rather than 15p previously and the bonus for existing shareholders will be 1-for-15 rather than 1-for-10 as before. The discount for the first instalment will be announced later and will depend on demand.

The cutbacks have been prompted partly by the government's need to raise as much cash as possible to counter its heavy public borrowing deficit.

Also, encouragement for institutions not to sell short and drive down the underlying share price ahead of the issue pricing means that the discount offered can be tighter.

Lower interest rates and lower returns from building societies increase the attraction of BT shares and reduce the need to boost the sale artificially.

Advisers to the issue, which is being handled by SG Warburg, have signalled that the price for the initial payment of the issue will be between 140p and 150p.

Although the issue is expected to be oversubscribed there are industry and market worries which could drag down share prices afterwards.

The long-awaited Monopolies and Mergers Commission report into British Gas will land on ministers' desks just after the issue and highlight regulatory uncertainty. Also, some analysts believe the impact of wider competition, particularly from cable operators, has been underestimated.

Meanwhile, the stock market is waiting to see the fate of the £1.3bn Zeneca rights issue which closes on June 21. If a significant amount of stock is left with the underwriters and the issue is considered a flop it could depress the stock market and affect the BT sale.

Policy Portfolio poised for main market with £11m tag

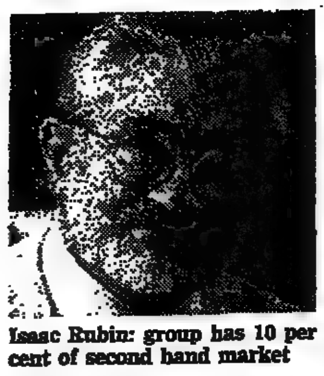
By Philip Coggan, Personal Finance Editor

POLICY Portfolio, a market-maker in second hand endowment policies, is planning to join the main market next month.

The company is likely to raise up to £5m via a placing, sponsored by Charterhouse Tilney, and will have a market capitalisation of about £11m.

Endowment policies are frequently used in the UK as a means of repaying a mortgage. Returns on so-called "with profits" endowments can depend heavily on a terminal bonus, which is only paid to those who keep up policies for the full term, often 25 years.

Those who give up their policy before the full term normally receive a "surrender value" determined by the life company. The second hand



Isaac Rubin: group has 10 per cent of second hand market

market grew up as investors who were dissatisfied with surrender values sold their policies to third parties, who intended to keep up the payments and receive the full benefit of the terminal bonus.

Policy Portfolio, a member of FIMBRA, was founded in 1988 by Mr Isaac Rubin who had himself invested in second hand policies in the early 1980s.

The group buys policies from investors and attempts to sell them at a profit. To date, the group has financed itself from bank borrowings and the issue will give it the capital base to expand.

Pre-tax profits have grown from £245,000 in the year to March 31 1991 to an estimated £817,000, on turnover of £7.91m, in the year to March 31 1993.

The market for second hand policies was about £80m last year, giving Policy Portfolio a market share of 10 per cent, behind Foster & Cranfield and Beale Dobie – part of the quoted Hambro Insurance Services. The second hand market is expanding rapidly in response to the large number of endowment policies sold in the 1980s.

Perpetual Japanese listing

Perpetual Japanese Investment Trust, the first investment trust launched by Perpetual, the Henley-based fund management group, is joining the stock market through an offer for subscription designed to raise £60m.

Up to 60m shares, with warrants attached, are being offered at a price of 100p each. Investors will receive one warrant with every five shares issued, giving rights to subscribe for ordinary shares at 100p each in each of the years 1994 to 2000.

The trust will have an initial life of 10 years. Dealings are expected to begin on July 8.

BP France

BP France has recommended acceptance of the offer by BP Europe, itself part of British Petroleum, for the 14.01 per cent of the French company's shares it does not already own.

The offer price is FFr120 per share, excluding the 1992 dividend. This gives shareholders a premium of 43 per cent on the last quoted price.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Sara Lee (US)	Unit of SmithKline Beecham (UK/US)	Toiletries	£211m	Non-core brands sold
English China Clays (UK)	Calgon (US)	Speciality chemicals	£202m	Developing sector strategy
International Investors	Bran & Luebbe (Germany)	Engineering	£85m	Buy-out from Alfa-Laval
Service Corp (US)	Pine Grove (Australia)	Funeral services	£46m	Service Corp's overseas debut
Coats Viyella (UK)	Berghaus International (Netherlands)	Clothing	£35m	Improving European distribution
United States Banknote Corp (US)	TDLR (Brazil)	Security printing	£30m	De La Rue exits Brazil
BSN (France)	Best Corporation (New Zealand)	Food	£7m	Taking 20% stake
Micro Focus (UK)	Proximity Software (US)	Software	£2.8m	Consummates existing relationship
TCI (US)	Cable Soft Network (Japan)	Cable TV	n/a	Stake in Japanese market
Autogrill (Italy)	Procace (Spain)	Catering	n/a	SME arm developing abroad

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Post Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	20.59	21.95	24.17
0100	20.31	35.00	38.03
0130	33.00	35.00	38.11
0200	33.00	35.00	38.09
0230	18.05	35.00	38.12
0300	33.00	20.60	22.59
0330	33.00	20.60	22.87
0400	33.00	20.60	22.87
0430	33.00	20.60	22.59
0500	33.00	20.60	22.59
0530	33.00	18.52	18.52
0600	33.00	18.52	18.52
0630	33.00	18.52	18.52
0700	33.00	18.52	18.52
0730	33.00	18.54	18.54
0800	33.00	25.27	27.76
0830	20.78	25.27	27.73
0900	21.43	25.70	28.19
0930	21.61	25.27	27.74
1000	25.99	27.32	29.66
1030	23.51	27.32	29.84
1100	27.60	27.32	29.82
1130	28.74	27.96	30.48
1200	38.12	29.96	32.55
1230	38.12	29.96	32.53
1300	38.12	29.96	32.53
1330	38.12	27.96	30.48
1400	25.99	25.70	28.14
1430	23.51	25.70	28.15
1500	21.61	24.54	26.95
1530	18.09	18.72	18.72
1600	18.09	18.74	18.74
1630	18.09	24.54	26.94
1700	18.09	25.47	27.82
1730	21.43	24.69	27.00
1800	21.43	38.00	38.84
1830	21.43	38.00	38.77
1900	21.43	38.00	38.61
1930	21.61	25.47	27.84
2000	21.61	26.50	28.82
2030	21.43	28.50	28.65
2100	21.43	28.50	28.65
2130	21.43	30.34	32.88
2200	33.41	31.50	34.06
2230	38.00	31.50	34.06
2300	38.00	29.07	31.60
2330	33.00	25.03	27.45
2400	21.61	25.03	27.45

[illegible] ©Energy Settlements and Information Services Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Post Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
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0930	[illegible]	[illegible]	[illegible]
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COMPANIES AND FINANCE

Ibos payment network set to link with US banks

By John Gapper, Banking Correspondent

UP TO five US banks are this year expected to join the Ibos cross-border payments network, operated jointly by a group of European banks. Their decision is likely to start bringing the network into competition with the Swift system that dominates European Community cross-border payments.

Ibos, started by Royal Bank of Scotland and Banco Santander, will also launch in autumn services aimed at small and medium-sized businesses, allowing companies remote computer access to their overseas accounts.

The Ibos network links 2,500 branches in Europe owned by the two founding partners, Crédit Commercial de France, and Banco de Comercio e Industria in Portugal. However, the group is negotiating with several US banks to link it to branch networks there.

Such a link would boost traffic through the network considerably. There are expected to be 23,000 transactions totalling $150m this year through Ibos. The Ibos system allows transfers among accounts within seven seconds, but the network is capable of handling up to 40,000 a day.

The Ibos partners are considering how to extend the network to the US, and are likely to admit several banks to cover the country. One possibility is that one bank will be licensed to offer Ibos services in each state, with each participating bank holding several licences.

The Ibos network is loss-making, in contrast to the Swift network to which all European banks have access and which had revenue of $350m in 1991. However, its partners expect it to enter profitability in about 18 months, and then achieve rapid growth.

The partners in Ibos – which stands for Inter Bank Online System – are also negotiating with banks in Belgium, Austria, Holland and Germany to establish partners in those countries. They expect to build a larger share of the $12bn market when this is done.

Mr Norman McCluskie, managing director of Royal Bank of Scotland's operations division, said the Ibos partners had so far concentrated on ensuring the system worked reliably. Now, however, they expected strong growth. "We see ourselves in a very dramatic position," he said.

Ibos is being marketed as being cheaper and faster than Express Swift transfer via a central computer in Brussels. Customers who hold accounts at the banks in the network are estimated to be able to transfer £3,000 ($4,620) for a fee of £6 through Ibos compared to £15 for Express Swift.

Microsoft in talks on cable TV venture

By Patrick Harverson in New York

MICROSOFT, the US computer software group, is in talks with Time Warner, the entertainment group, and Tele-Communications Inc, the big cable television company, to set up a joint venture to develop interactive software for television, according to news reports.

Although the three companies have not commented on the reports, their negotiations are expected to lead to the establishment of a new company producing software for cable television boxes.

The software would provide cable subscribers with access to a wide array of interactive information and services. It would allow them to shop by television, view individually-selected news and statistics, or select films and video games from a vast electronic library.

The link-up between Microsoft, Time Warner and TCI would represent the latest in a series of moves by large computer, entertainment and communications companies joining forces to develop interactive media technology for cable television users.

In April, Microsoft announced it was getting together with the micro-chip manufacturer Intel and cable hardware company General Instrument to develop a cable TV box with a built-in interactive personal computer.

Enron thrives in an open market

David Lascelles charts the rise of 'the US's biggest natural gas group'

Deregulation of the tightly controlled natural gas business in the US has opened up opportunities for energy companies, none more so than for Enron, based in the US oil and gas capital, Houston.

Non-existent 10 years ago, Enron has mushroomed to the point where it claims – with some justification – to be "the nation's largest natural gas company". Its status is embodied in the shiny skyscraper it occupies in the city centre next to other giants of the energy business.

Enron was born in 1985 from the merger of a natural gas and a pipeline company. It owes its rapid growth largely to decisions taken by the Federal Energy Regulatory Commission (FERC) to lift decades-old controls which restricted the operations of gas companies and put a lid on prices. In particular, the "unbundling" of gas transportation and sales services gave greater freedom to companies to compete.

But two other factors also played a role. One was the changing perception of gas from a by-product best flared off at the wellhead to an efficient, environmentally friendly fuel ideal for power generation. Another was the view of Mr Kenneth Lay, Enron's chairman, of the gas market as one of boundless opportunity.

Today, Enron is in all important stages of the gas business. It has an exploration and production arm through its 80 per cent interest in Enron Oil and Gas; it owns a 40,000-mile network of gas pipelines extending up towards the Great Lakes and outwards to Florida and California; it provides gas supply and distribution services, and downstream it builds and operates power stations.

The area of the market where Enron has been specially successful is in exploiting the new freedom to market gas. Its gas services division has built up a speciality in designing tailor-made long-term supply contracts for customers using sophisticated hedging and financing techniques. It also trades heavily in the gas market: 10 per cent of all the gas bought and sold in the US passes through Enron's hands. This gives it a liquidity few competitors can match.

Although the biggest part of Enron's growth has come in the US, it has also exported its vision of a gas conglomerate. In April, the company opened a 1,875MW power station on the UK's Teesside. Enron owns 50 per cent of the $1.2bn facility, which it expects to be the precursor to others in the UK. It is also negotiating projects in India, Germany, Turkey and Kuwait, and it has bought a stake in a pipeline network in Argentina.

The strong expansion in electricity demand predicted for the Third World over the next decade is all factored into Enron's growth plans.

The wave carrying Enron forward has been reflected in its results. Earnings have risen at a compound annual rate of nearly 30 per cent since 1988, reaching $306m last year. And Mr Lay is confidently predicting growth of another 20 per cent this year. "All our businesses are doing a bit better," he says.

Mr Lay bases this optimism on the strength of the US gas market. After years of glut, he reckons that supply and demand have finally come into balance, and this is reflected in the rise in gas prices to as much as 60 per cent over last year's levels. According to US government statistics, US gas demand rose 4.3 per cent in the first quarter of this year, but production went up less than 1 per cent.

However, further out, Enron expects US natural gas growth to be strong well into the next century. Its latest forecast puts demand at 22,000bn cu ft in the year 2000 (it was 18,000bn last year), rising to more than 25,000bn in 2010. Enron's estimates of US gas reserves are also rosy: they suggest there is enough to last 71 years.

Much of the rest of the US energy business seems to share Mr Lay's enthusiasm for gas. Other large companies such as Mobil, Shell and Exxon see a good part of their future growth coming there as well.

Not everyone, however, is as optimistic about the level of reserves. Mr Robert Hermes, president of Purvin & Gertz, a Houston firm which specialises in oil and gas research, says: "The attitude is that we've got all we want. People are over-optimistic. We have been living off a surplus, but that day is over."

He points out that the strength of the gas price has not sparked a surge in exploration activity because people are worried about the volatility of the market.

Another potential cloud on Enron's horizon is the energy tax being proposed by President Bill Clinton. Although it is still not clear what form it will take, Mr Lay says he is confident it will be a tax on energy consumers rather than energy companies. That, he says, is "a tax we can live with".

But can Enron keep up the pace now that the initial flush of deregulation is over and strong competitors are moving into the market?

Mr David Fleischer, gas industry analyst at Goldman Sachs, believes it can. He is predicting long-term earnings growth for Enron of 15 per cent. "It's an even better managed company than most people think it is," he says. "Mr Lay has turned it round during a period which buried many other companies."

Mr Lay's response to concerns about Enron running out of steam is that it is wrong to view the last five years as ones of exceptional growth for the natural gas business. For much of that period there was still regulation and uncertainty, and Enron's success came in spite of rather than thanks to events. "The market growth will be bigger in the next five years than in the last," he forecasts.

Decline in demand hits Kone result

By Hugh Carnegy in Stockholm

KONE, the Finnish maker of elevators and cranes, said profits before taxes and allocations declined in the first four months, to FM69m ($12.7m), from FM78m at the same stage last year. It blamed the decline on falling demand in Europe.

Kone said although it saw no signs of revival in demand in the rest of 1993, it expected an improvement later in the year to produce a full-year profit at "nearly the same level" as 1992's FM479m.

Sales at Kone Elevators, which represent 73 per cent of group turnover, grew 16 per cent in the first four months, lifting overall sales to FM3.6bn, a 15 per cent improvement over last time. However, some two thirds of the growth in sales were attributed to the near 20 per cent decline in the value of the Finnish markka following its flotation.

Vard to reveal sale of ferry business

By Karen Fossli in Oslo

VARD, the Norwegian cruise and ferry group, expects to announce the disposal of its ferry business this week, according to a senior executive in the company.

Trading in Vard's shares were suspended temporarily on Friday in Oslo and London. On Thursday Vard's shares closed on the Oslo bourse up NKr3 at NKr25, and were the second most actively traded with 8 per cent of the share capital worth NKr23.8m ($3.44m) changing hands.

Mr Trygve Hegnar, a Vard board member, on March 15 made an "indicative" offer of NKr1.2bn for the ferry business, which includes the Scandi and Larvik lines.

Union Bank of Switzerland is leading negotiations on behalf of Mr Hegnar and a group of financial investors, while Mr Truls Sanner, Vard's chief executive, is negotiating on behalf of the board. Mr Hegnar is also Vard's second biggest shareholder with an 11.8 per cent stake in the group.

In Vard's 1992 accounts, the three ferries which make up the fleet were booked at a value of NKr455m.

Vard forecast a "satisfactory" result in 1993 for the ferry business. Last year, the business achieved its best result ever, posting a net profit of NKr123.7m against NKr104.5m in the previous year. In the first quarter of this year, however, it saw losses widen to NKr32.6m from NKr5m in last time.

Domestic analysts estimate proceeds of the disposal will reach $170m. About $120m will be used to pay off the bulk of the $220m worth of debt of Vard's holding company. The rest will be used to service remaining debt and cover overheads.

Vard is also seeking to dispose of just over 50 per cent of Miami-based Kloster Cruise, its cruise business.

Trust banks

IN reference to a report in the Financial Times on June 1, Japan's seven trust banks say they did not change their accounting procedures, and counted as revenue only cash received on their trust accounts, and did not utilise accrued basis accounting methods.

The banks attribute their improved operating profits for the year ending in March to favourable margins on interest rates, which fell during the period, and to cost cutting.

Tetra Laval sells unit

TETRA LAVAL, the Swedish food packaging and equipment group, has made its first big disposal since the takeover of Alfa-Laval in 1991. It has sold German-based Bran & Luebbe in a DM210m ($130m) leveraged buy-out, writes Andrew Baxter.

CWB Capital Partners, a London-based acquisition fund, is buying B&L, one of the world's leading suppliers of dosing pumps, industrial analysers, and electronics for industrial weighing and process automation.

The deal is believed to be the largest leveraged buy-out in Germany in three years.

Bank financing is being provided by Dresdner Bank, Deutsche Bank and Citibank. Rhein Donau Capital Partners, a fund managed by Goldman Sachs, has taken a substantial minority stake in the transaction, and Hancock International Private Equity Partners has also made a minority investment.

NEWS IN BRIEF

■ R. H. Macy, the bankrupt New York-based department store group, made a $54m operating loss in its third quarter, to May 1, down from a $60m deficit in the same period last year, writes Nikki Tait in New York.

The after-tax loss stood at $228m, but this includes "reorganisation" items of $182m, related to store closures and other changes. The net loss in the same period of 1991 was $226m after reorganisation items of $166m.

■ Standard & Poor's and Moody's, the two largest US debt rating agencies, said they were reviewing the ratings of H. J. Heinz for a possible downgrade, writes Nikki Tait.

The announcements came after directors of Heinz, the Pittsburgh-based food group, authorised the "buy-back" of up to an additional 10m ordinary shares.

Heinz has an existing share repurchase programme, which began in December 1991 and was also for 10m shares. However, it now has only 300,000 shares left to repurchase under this earlier authorisation.

UK GILTS

Bank's offering fails to discourage demand

THE announcement on Friday by the Bank of England that £700m of bonds will be on sale from today failed to puncture generally good demand for gilts from overseas investors.

While the short end of the yield curve suffered a little as an imminent cut in base rates appeared to diminish, continental European and US institutions were seen as moderate *buyers of gilts as sterling suffered little fall-out from fresh* signs of UK political instability.

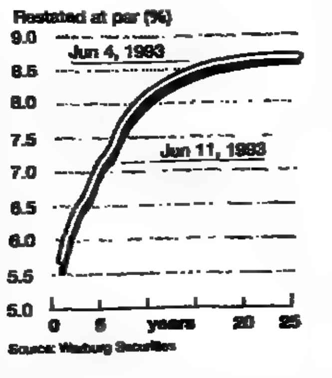
There was some support for gilt purchases from indications that Conservative ministers were preparing for tough action to hold back public spending. Such moves could in time curb the rising public sector borrowing requirement and push up gilt prices.

During the week, yields fell along the curve, by around 10 basis points at the 20-year area and by somewhat less for securities maturing in the next five years.

The Bank said it would sell £700m of the 8.75 per cent Treasury stock due 2017. This is part of the massive effort by the UK authorities to fund the PSBR, expected to be £50bn this financial year. Taking into account some over-funding last year, and other factors, this is expected to necessitate gilt sales of around £40bn.

While such a large stock of bonds will almost certainly depress prices along the gilt curve, there is some support for the notion that inflationary pressures are not too much of a problem for the foreseeable future.

This is reflected in the market expectations about the the latest figures for the retail prices index due this Thursday. In the year to last month, according to the City consensus, the increase in the RPI will turn out to be just 1.4 per cent, as opposed to the 1.3 per cent year on year rise recorded in April.



Source: Warburg Securities

Expectations are that the year on year increase in the RPI, excluding mortgage costs, will turn out to be 2.9 per cent, the same as in the year to May.

Last week, Mr Eddie George, who will soon be governor of the Bank of England, went out of his way to cast doubt on ideas that inflation in the UK was beaten. He said this certainly was not the view of the gilt market, with 10-year yields at around 8 per cent as opposed to base rates of 6 per cent.

With a strong warning against any new reductions in short-term borrowing costs, Mr George's speech pushed up yields a little at the short end of the gilt curve. This was on the basis that Mr Kenneth Clarke, the new chancellor, would be likely to take heed of the governor designate in any new ruminations about interest rate changes.

However, Mr George's strictures about inflation settled investors in longer-term securities. Many of them reckon the new governor will be in a better position to use his influence over interest-rate decisions than was Lord Leigh-Pemberton, the current governor whose term of office ends in two weeks.

The repercussions in the gilt market from the broadside at government policy by Mr Norman Lamont, the ex-chancellor, in the Commons last week were extremely limited. As one market observer put it, the general atmosphere of fragility surrounding the government is already reflected in stock prices and Mr Lamont's comments did little to alter the situation.

There was general lack of interest in the deposed chancellor's comments that for over two years he had tried to persuade Mr John Major of the necessity of making the Bank *of England independent in* monetary policy.

This was seen as largely an academic affair, even though it was one small step along the road towards taking interest rate decisions out of the hands of politicians. One person closely acquainted with the Bank's operations said: "There's not a snowball's chance in hell of the Bank being made independent in the next two to three years."

Gilts were given something of a boost by the investor selling last week of the D-Mark which helped other currencies, particularly sterling. Also, the leaking of government plans to *look closely at ways of* constraining rises in social security spending, which accounts for about a third of all government spending, helped to put a floor under gilt prices.

Peter Marsh

SPANISH BONDS

Socialist victory keeps dealers bullish for now

ONE month ahead of the Pamplona bull-running fiesta that Ernest Hemingway put on the map, the Spanish government bond market bulls are already out in force.

Government bonds have leapt forward on the news of Mr Felipe Gonzalez's re-election. As the market sees it, he stands for a strong commitment to the ERM. And although he was short of a majority, the parliamentary shortfall means that Catalan nationalists, with all their *alleged fiscal probity*, will shore up the new government.

The rally finally flattened the yield curve and brought the long bond down by more than 20 points to below 10.80, with just a 65-basis point margin over the three-year bond. Earlier this year the differential had been at least one percentage point.

It looked like good news all the way. Pragmatic politicians were in place, the currency risk was fading, and interest rates would fall at a reasonable pace. The pre-election alternative had been the inexperienced right-wing opposition party gaining power, cutting rates and *possibly suspending* ERM membership.

The market felt there was now room for Spanish rates to ease in the wake of German cuts. Bank of Spain governor Mr Luis Angel Rojo fuelled the feel-food factor by saying the peseta was back on the track of being linked into Germany.

It is likely investors will be reassured about currency stability over the summer as Spain's tourism industry, powered by three devaluations since September, begins to make a significant impact on the current account deficit.

But that is possibly as far as the good news goes. More cautious analysts believe the rally could hit a wall well before September. There are already signs of nervousness over the *apparent* inability of President Gonzalez to secure quickly his victory of a week ago.

The market does not like squabbles in Mr Gonzalez's socialist party over whether the Catalans should be invited into the government *or not*. Nor does it like similar quarrels among the Catalans about whether any invitations should be accepted.

Should the political imponderables resolve themselves, the crunch is likely to come after September, when the markets start looking at inflation, unemployment, and the budget deficit.

The May inflation figure pub*lished today is expected* to show a year-on-year figure unchanged at 4.6 per cent and underlying inflation unchanged at 5.8. In June, when the latest devaluation works through to prices, inflation could start to climb and most bets are on a year-end figure of almost 5 per cent.

Unemployment could look increasingly grim as the economy enters the fourth quarter. Last month registered unemployed fell by less than 1 per cent, the lowest May fall for 10 years, to stand at 16.3 per cent of the working population.

The budget deficit – 4.4 per cent of GDP according to the government and nearer 6 per cent according to the conservative opposition – could be another headache.

If Mr Gonzalez was unable to reduce deficits effectively in the past, when he had a strong majority and the economy was growing, how, economists might ask, will he rein in spending in the middle of a recession and at the head of a coalition government.

It could well be that the rate cuts, should they occur, will not look so impressive in three months. Even if there are significant German cuts, Spanish rates are unlikely to fall below 9 per cent, and real interest rates will remain at around 4 per cent.

That scenario suggests there could be renewed speculative attacks on the peseta in September. The difference this time will be that the peseta might not be able to avoid following the route of the pound and the lira.

Tom Burns

US MONEY AND CREDIT

Wall Street relaxes inflation watch

JUDGING by the recently released May producer prices index, it *looks* as if the inflation scare may be over. At least it should be by tomorrow, when the second half of the monthly inflation data – the consumer prices index – is released.

If the CPI numbers are as reassuring as the PPI numbers were (wholesale prices were unchanged in May, and the core rate, which excludes the volatile food and energy components, was up only 0.2 per cent), then the bond market faces relatively plain sailing over the next few weeks.

After a month of navigating choppy waters whipped up by fears that rising inflation would lead to higher interest rates (it was a month in which the yield on the 30-year bond rose from just under 6.8 per cent to over 7 per cent), fixed-income investors must be looking forward to a little tranquility.

First, however, they will have to get past the final hurdle of tomorrow's consumer prices report. Analysts are forecasting that both the headline and core CPI numbers will show an advance of 0.2 per cent for *May. This would be a* significant improvement from the average 0.4 per cent growth registered over the first four months of the year.

If the CPI numbers come in substantially above forecast, then the Federal Reserve could choose to tighten monetary policy, the weak May PPI numbers notwithstanding. Such a tightening would probably take the form of a 25-basis point rise in the federal funds rate, to 3.25 per cent, rather than a fully-fledged increase in the discount rate, which has been at 3 per cent all year.

Overall, however, Wall Street has relaxed its inflation watch. Most analysts estimate that inflation will top out at the 3 to 3.5 per cent range for 1993. There is growing belief that the 4 per cent-plus inflation rates seen earlier this year were a short-term hangover from the unexpectedly strong economic growth registered at the end of 1992. It was growth that encouraged some producers and retailers to raise their prices. The subsequent slowdown since then should see *prices come back from the* early-year highs.

Amid all the fuss over inflation, the Clinton administration and the Fed have continued to dance a delicate two-step.

Last week President Clinton met with Fed chairman Mr Alan Greenspan and reiterated the administration's strongly-held view that the economy was not strong enough to withstand an interest rate rise. The chorus of politicians warning the Fed not to put up rates got even louder after the favourable PPI numbers were released.

At the same time, Fed governors, led by Mr Lawrence Lindsay, were warning that the Fed was prepared to raise interest rates if inflation looked as if it might get out of hand. Mr Greenspan himself, however, said in a letter to a senior Congressman last week that he was disappointed by the poor rate of economic growth in the first quarter, and that promoting sustainable economic expansion remained a "crucial objective" of monetary policy.

Although the bond market was not *quite sure what* to make of all this, its attention this week should switch quickly to more overtly political matters – such as the progress, or otherwise, of the President's deficit-reduction package, currently making its way through Congress.

In the past week, the chances of the package being passed by the Senate have improved, although at the cost of the energy tax, which analysts say will probably be dumped by the administration in favour of a combination of some kind of transportation or petrol tax and fresh cuts in spending.

The market has so far taken the horse-trading over the economic package in its stride. As Ms Kathleen Stephansen of securities house Donaldson, Lufkin & Jenrette says: "At this stage of the dialogue the composition of deficit-cutting measures is less important than achieving the cuts."

Patrick Harverson

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
Abb Intl Fin 8½ 95	200	103¼	+⅛	5.09
Abbey Natl Treasury 6½ 03	1000	98½	+⅞	6.71
ABN 9½ 94	200	105¼		4.28
Aetna Life Cas 7¾ 18	200	100½	-⅛	7.74
AlbertaProvince 8¾ 98	750	109⅜		5.40
AlbertaProvince 9¾ 95	600	109⅜		4.36
American Express 0 00	450	60½	+¼	6.93
American General 9¾ 95	100	108⅜		5.14
American Intl 0 04	750	47	+⅛	6.99
Amoco Canada 7¼ 02	250	104⅜	+⅜	6.53
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Issued	Bid price	Chg on week	Yield
Sears Euro Trust 8¼ 96	750	108⅜	+⅛	5.48
Sears o/s Fin Zero 0 98	500	71½	+⅛	6.82
Sears Roebuck Euro 9¾ 95	500	108¼	+⅛	4.94
Scandinavia Enskilda 7¼ 97	500	103⅝	+⅛	6.32
SNCF 9½ 98	150	115	+⅛	5.78
Spain 6½ 99	1500	103⅝	+⅛	6.03
State Bk NSW 8½ 96	[illegible]	[illegible]	+⅛	5.48
Sweden 5½ 95	2000	101½		4.83
Sweden 6½ 03	2000	100	+⅛	6.50
Sweden 9¼ 98	350	114⅛	+⅛	5.75
Swedish Export 8¾ 96	700	108⅛		5.15
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SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
Asian Dev Bank 6 10	100	105¼		5.48
Council Europe 4¼ 98	250	100¼	+⅛	4.58
EIB 6¼ 04	300	110½	+⅛	5.48
Elec de France 7¼ 06	700	112⅛	-⅛	5.79
Finland 7¼ 99	300	110¼		5.33
General Motors 7½ 95	100	108		5.70
Hyundai Motor Fin 8½ 97	100	106		6.81
Iceland 7⅞ 00	100	111¼	+⅛	5.88
Kobe 6¼ 01	240	108½	+⅛	5.07
New Zealand 4⅞ 99	200	100		4.87
Ontario 6¼ 03	400	105½	-⅛	5.38
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STRAIGHT BONDS: [illegible]
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on June 11

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INTERNATIONAL BONDS

Activity in fledgling Asian Dragons begins to take off

ASIA'S Dragon bond market is still in its infancy, with the handful of issues launched so far adding up to just over $2bn.

But with the recent flurry of activity – five borrowers have launched issues in Asia in the last three months and more are rumoured to be lining up deals – some bankers are wondering whether the fledgling market has finally taken off.

A Dragon bond is similar in structure to a Eurobond, except it is listed in Asia (usually in Hong Kong or Singapore) and is targeted at investors in the region. It is usually heavily marketed in Asia and traded in the Asian time zone so that investors there get first bite at the cherry before London wakes up for trading.

Mr Andrew Pisker, managing director of corporate finance at Lehman Brothers International, notes that one of the main aims of the borrower is to attract a wider range of investors in Asia.

"There is a large market out there ... there are investors in the region who have bought Eurobonds, and if you are an issuer you should have a large investor base," he says.

The seven Dragon bonds issued to date range from the Asian Development Bank's dollar and yen deals (which provided the foundation for the market) to financial agencies (such as Nordic Investment Bank, European Investment Bank and Swedish Export Credit), as well as General Electric Capital Corporation (GECC), the sole corporate name to have tapped this market.

Lehman Brothers says the issues have attracted a wide range of investors in the region, including central banks, regional and local commercial banks, non-bank financial institutions, fund managers and mutual funds.

Mr Peter Yngwe, treasurer and head of finance department at Swedish Export Credit (known in the market as SEK) says one reason for launching a $200m Dragon bond issue earlier this month was "to tap into a market where we find old and new investors, so we are broadening our investor base. It should be easier to be remembered if we are there early."

But just as important, he claims, is the implied commitment to the Asian region. "It suits us because we are lending to Swedish exporters and we have a lot of corporations in Sweden which do business in Asia, for example in infrastructure projects."

According to Lehman Brothers, lead manager for GECC's $300m five-year Dragon bond in March, GECC was keen to raise funds from Asian investors to demonstrate its "commitment to the [Asian] region", especially since it is involved in joint ventures in the area.

The Asian Development Bank is keen to develop the capital markets in the region, and some capital market participants hope to see more and more big names turning to the Dragon bond market.

Mr Yngwe of SEK sees a gradual development of the Asian market, with the current triple-A rated names blazing the trail.

He predicts local banks will turn to the Dragon bond market because of the strong need for financing in the region related to infrastructure and construction projects.

One senior investment banker in Hong Kong thinks the Dragon bond market will remain an arena for triple-A and double-A credits in the immediate future, but he predicts that "in five years' time we'll probably have seen a move down the credit rating spectrum".

Not all international bond market participants are so enthusiastic about the future of the Dragon bond market. Some question the point of launching issues aimed only at Asia. These detractors would prefer to see "big name" borrowers launching global bond issues, or else considering bond issues launched in both Asia and Europe.

"There's no practical reason why we shouldn't have a sort of hybrid bond issue launched in Asia and Europe," says one syndicate head at a Japanese house.

But the more serious criticisms levelled at the recent Dragon bond issues concern their relatively poor liquidity and the fact that in some cases, yield spreads have widened out in the period since launch.

The deals issued by the Nordic Investment Bank, European Investment Bank and SEK were all seen as aggressively priced at the time of launch. Dealers point out that Eurobond spreads over US treasury bonds have tightened very slightly in recent weeks, whereas the yield spreads on NIB, EIB and SEK Dragon bonds have inched very slightly wider.

Naturally, borrowers are keen to raise funds at the most aggressive pricing possible, and can usually borrow at a similar cost using a Dragon bond or a Eurobond.

But as one Hong Kong-based banker put it: "Perhaps the lesson to be learned is not to price the next few deals too tightly or investors may be deterred from buying the bonds if they see that there is a risk of spreads widening out again. Otherwise there's a danger the market will crash and burn."

Sara Webb

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Daiwa Kosho Lease Co.(a)◊	200	Jun.1997	1.125	100	-	-	Daiwa Europe
Nippon Oil & Fats Corp.(b)◊	100	Jun.1997	1	100	-	-	Yamaichi Intl.(Europe)
Republic of Italy(f)‡	2bn	Jun.1998	(f)	99.75R	-	-	Morgan Stanley Intl.
KfW International Finance	500	Jun.2000	5.875	99.208R	6.017	+23 (5½%-00)	Deutsche Bank London
City of Kobe	240	Jul.2003	6.375	99.62R	6.428	+27 (4¼%-03)	Bank of Tokyo Cap.Mkts.
Bank of China‡	200	Jul.1998	(i)	100R	-	-	CSFB
Daiwa Rakuda Industry(j)◊	85	Jun.1997	1	100	-	-	Daiwa Europe
BNDES	80	Jun.1998	9.375#	99.59R	9.480	-	ING Bank
MMC Intl. Finance (Neths.)	50	Jun.1998	6	100.25R	5.941	+58 (5⅝%-98)	Mitsubishi Finance Intl.
Prime Property Funding(o)‡	172	Jun.1998	(o)	100	-	-	CSFB
BankAmerica Corp.‡	150	Jun.2003	(p)	100R	-	-	Kidder, Peabody Intl.
CCF(s)‡	50	May.2003	(s)	(s)	-	-	Kidder, Peabody Intl.
Eli Lilly & Co.	150	Jul.1998	5.5	99.744R	5.560	+15 (5⅛%-98)	Morgan Stanley Intl.
Republic of Iceland	125	Jul.1998	6	99.23R	6.184	+75 (5⅛%-98)	Goldman Sachs Intl.
SASCO 3(t)‡	121.168	Jun.2005	(t)	100	-	-	Lehman Brothers
Banco Comercial	40	Jul.1998	8#	98.75R	8.511	+300 (5⅛%-98)	CSFB
Homestake Mining Co.(w)§	150	Jun.2000	5.5#	100	-	-	Goldman Sachs Intl.
YEN							
Sapporo Breweries§(c)	40bn	Jun.2000	1.375#	100	-	-	Yamaichi Intl. (Europe)
Toa Steel Co.(g)§	50bn	Sep.2000	1.5#	100	-	-	Nomura International
Sony Eurofinance	10bn	Oct.1998	4.45	100.15R	4.395	-	Sakura Finance Intl.
FRENCH FRANCS							
SNCF(k)	3bn	Mar.2002	7.75	102.37R	7.359	+23 (8½%-02)	Banque Paribas
Caisse Nationale des Autoroutes	1.7bn	Jul.1999	6.75	99.617R	6.830	+20 (8⅛%-99)	CCF
Eurodif	1bn	Jul.2000	7	98.775R	7.229	+48 (8½%-00)	Société Générale
Crédit Lyonnais	1bn	Feb.1998	7	99.81R	7.065	+51½ (9½%-98)	Crédit Lyonnais
France Telecom	2bn	Jul.1999	6.5	98.56R	6.800	+20 (8⅛%-99)	BNP Capital Markets
White Tunnel Finance(y)‡	426.2	Jan.2002	(y)	-	-	-	CCF
STERLING							
British Gas	250	Jul.2008	8.875	99.918R	8.805	+30 (9%-08)	S.Montagu/ Salomon
Marks and Spencer Finance	150	Dec.1998	7.375	99.69R	7.46	+25 (7¼%-98)	SG Warburg Securities
Guaranteed Export Fin. Corp.	500	Dec.1998	7.25	99.515R	7.375	+20 (7¼%-98)	Samuel Montagu & Co.
Woolwich Building Society‡	125	Jun.1997	(q)	99.73R	-	-	UBS
Unilever	100	Dec.1998	7.375	99.95R	7.400	+23 (7¼%-98)	IBJ Intl./ SG Warburg
Bank of Greece	100	Jun.2003	9.75	98.88R	9.935	+175 (8%-03)	SG Warburg Securities
Treasury Corp. of Victoria	150	Jul.2003	8.75	99.91R	8.764	+82 (8%-03)	UBS
CANADIAN DOLLARS							
Abbey Nat. Treasury Services	150	Jul.1998	7.5	99.794R	7.551	+57 (8¼%-98)	BZW/ Wood Gundy
ITALIAN LIRA							
European Investment Bank	700bn	Jul.1998	10.15	101.58	9.736	-	BCI/BNL/Credito Italiano
IMI Bank Intl.(Cayman)(u)	150bn	Jul.1998	11.125	102.125	10.556	-	IMI Bank Luxembourg
AUSTRALIAN DOLLARS							
R&I Bank Western Australia	100	Jul.2000	7.75	100.85	7.570	-	Hambros Bank
DANISH KRONER							
Finance for Danish Industry	300	Jul.1998	7.125	101.75	6.702	-	Unibank
SWEDISH KRONA							
Swedish Export Credit	500	Jul.1997	7.875	99.82R	7.929	-	Morgan Stanley Intl.
PESETAS							
Crédit Local de France(v)	10bn	Jul.1998	10.4	101.31	10.054	-	Banesto
SWISS FRANCS							
Japan Transcity Corp.(d)*◊	100	Jun.1997	1.125	100	-	-	Credit Suisse
Tobu Railway Co.(e)*◊	200	Jun.1997	1	100	-	-	Swiss Bank Corp.
Shinko Electric Inds.(j)*◊	160	Jun.1997	0.875	100	-	-	Credit Suisse
Japan Fin. Corp. Mun. Ents.	150	Jul.2003	4.75	101	4.623	-	Swiss Bank Corp.
Union Industrielle de Credit	100	Jul.1999	5.125	101.75	4.783	-	Coutts & Co.
ABB International Finance	100	Jul.1998	(l)	100	-	-	SG Warburg Securities
Dainichiseika Colour(r)*◊	100	Jun.1997	0.875	100	-	-	Credit Suisse
Kitano Construction Corp.(x)*◊	150	Jun.1997	0.875	100	-	-	UBS
LUXEMBOURG FRANCS							
CFCMB(h)	1bn	Jul.2001	7.375	101.35	7.148	-	BCEE
San Paolo, London Branch(m)	1bn	Jul.2001	7.625	102.5	7.203	-	Cregem Intl. Bank
CSFB Finance(n)	1bn	Jul.2003	7.75	102.3	7.418	-	Kredietbank Intl.Group

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. *Private placement. §Convertible. ◊With equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price. a) Denom.: $5,000 + 1 warrant. Exercise price: Y1353. FX: 108.50Y/$. b) Denom.: $10,000 + 2 warrants. Exercise price: Y753. FX: 108.50Y/$. c) Conversion price: Y1088. Callable on 1/7/94 at 103% falling by 0.5% annually subject to 130% rule. Puttable at par on 30/6/98. d) Denom.: SFr50,000 + 50 warrants. Exercise price: Y1077. FX: 74.61Y/SFr. e) Denom.: SFr50,000 + 50 warrants. Exercise price: Y877. FX: 74.59Y/SFr. Callable on 17/6/95. f) Coupon pays 3-month Libor + 0.25%. Callable on any interest payment date from June 1996 at par. g) Conversion price: Y1046. Callable from 1/4/95 at 102.75% declining by 0.25% semi-annually. h) Borrowers full name: Compagnie Financière du Crédit Mutuel de Bretagne. i) Coupon pays 6-month Libor + 0.5%. j) Final terms fixed on 15/6/93. k) Fungible with the outstanding FFr3bn. Plus 131 days accrued interest. l) Coupon reset annually: formula = ½ of the upward performance of BBC Brown Boveri bearer shares. Maximum coupon 12%. m) Issued on fiduciary basis through Cregem International Bank. n) Issue launched on 28/5/93 was increased to LFr3bn. o) Backed by shopping malls in the US. Coupon pays 3-month Libor + 1.1%. Callable on any interest payment date at par. p) Coupon pays 6-month Libor - 0.125%; minimum 5.5%, maximum 10%. q) Coupon pays 3-month Libor + 0.1875%. r) Final terms fixed on 14/6/93. Callable at 101 on 24/6/95 declining by ½% annually. s) Block trade, fungible with the $150m launched in late April. Coupon pays 6-month Libor - 0.25%, minimum 5.125%, maximum 9%. t) Mortgage backed global deal. Coupon pays 1-month Libor + 0.9%; maximum 10%. Average life years: 4.5. u) Issue launched on 3/6/93 was increased to L250bn. v) Matador bond. w) Conversion price: $23.0827. Callable from 23/6/96 at par. x) Final terms fixed on 17/6/93. y) Partly paid issue: 1st instalment payable on 15/7/93 and 2nd on 17/1/94. Coupon pays 6-month Libor + 0.9%. Callable on 15/7/98. Price, fees undisclosed. Note: Yields are calculated on ISMA basis.

RISK AND REWARD

Futures fund managers reassess the cash implications

WHEN investors consider which futures funds to buy, they are faced with an almost infinite array of trading systems and analytical techniques for investing in the futures markets. But the structure of futures funds means that often only a relatively small portion of the fund is actually invested in margins on futures contracts or option premiums: the remainder is invested in the money markets.

The performance of this part of the fund has often tended to be ignored. However increasing competition in the futures fund business has encouraged greater care to be taken in the management of the cash portion of the fund. In particular, the decline of short-term interest rates has forced fund managers to reassess their approach.

Some smaller futures fund managers, particularly in the US, are starting to farm out the management of the cash portion of their funds.

"People concentrate on the things that they are interested in," says Ms Diane Mix, of Horizon Cash Management, which is now trying to market its services to European futures funds. "[Futures fund managers] are very keen on the futures side and tend not to concentrate on the rest of the money, which consequently doesn't earn as much as it should."

In the US, many fund managers have simply invested the cash portion of funds in Treasury bills or in an interest-bearing account, according to Ms Mix.

In fact, once a large pool of cash is available, better returns can be earned from commercial paper and bank certificates of deposit.

According to one large futures fund management group, which manages its own funds' cash, it is difficult for funds with less than £5m in cash to get attractive rates. In the CP and CD markets, bid/offer spreads are uncompetitive in small sizes. Term deposits can also be unattractive, because of the penalties imposed for early redemption, which means that potentially better margins can easily be lost.

Ms Mix says her company is looking to offer returns equal to or better than prevailing T-bill rates. Historically, she says, futures fund managers have achieved less than bill rates, partly because of the relatively high fees subtracted from returns.

★★★★

WHILE derivatives may still be giving regulators some sleepless nights, credit rating agencies seem to be rather less perturbed.

Moody's, one of the leading US credit rating agencies, has completed a report on the credit risk implications of derivatives activities which concludes that few of the financial institutions it rates have been materially affected by their derivatives activities.

"There will be losses at individual entities from bad risk analysis, bad controls, or plain bad luck, but derivatives are not a ticking time-bomb for banks and securities houses," according to Mr Douglas Lucas, assistant vice-president of Moody's financial institutions group.

Moody's found that the risk-adjusted returns to derivative dealers have generally been high, and that losses, so far, have not resulted in significant credit implications.

Mr Lucas believes it is the "large numbers, cryptic nature and opaque disclosure" of the derivative markets which have fuelled fears about the risks involved.

He noted that Moody's has never changed an institution's rating solely on the basis of derivative operations.

"Typically, the factors arguing in favour of an adjustment in our ratings cut across an institution's balance sheet and off-balance sheet activities," he said.

Moody's divides its overview of derivatives risk at a financial institution into four main areas – the purposes of the activity, market risk, credit risk and operating risk.

Mr Lucas takes the view that derivatives are usually used by financial institutions to assume risks similar to those already taken in other ways. But it is an issue the agency explores with both financial institutions and industrial companies: "It does have the potential to be a negative in the credit picture," he said.

Tracy Corrigan

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close June 11

Quotations in cents unless marked $

MONTREAL

4 pm close June 11

INDICES

NEW YORK

DOW JONES

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA

TORONTO

JAPAN

TOKYO - Most Active Stocks

Friday, June 11, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Kawasaki Hvy Ind .	8.2m	474	+5	Hitachi Zosen	5.2m	528	-2
Nippon Steel	7.2m	407	-2	Hitachi	5.0m	869	+9
Ricoh Co	6.8m	628	+18	Tokyo Gas	4.2m	559	+11
Mitsubishi Heavy ..	5.4m	708	+3	Dainippon Pharm ..	4.9m	1,420	+80
Sumitomo Mtl Ind .	5.4m	357	+2	Toshiba Corp	4.0m	730	+5

FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♠) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH. Tel: 071-379-0444.

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	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St, London W1A3AS. 071-637 5377						
S & W American	5	260.8	260.8	273.7	0.88	41330
S & W Capital	5	118.7	118.7	127.3	1.85	40181
S & W Cash	0	101.00	101.00	101.00	5.33	40183
S & W European	5	112.7	112.8xd	118.3	1.19	40253
S & W Far Eastern	5	151.6	153.2	162.1	0.00	40874
S & W Growth	5	128.1	128.1	132.3	1.19	41331
S & W Income	5	112.6	113.7	120.3	4.55	41332
S & W Magnum	5	128.2	128.2	134.4	1.54	40800
S & W Smllr Secs	5	317.5	324.7	343.6	0.50	41333
S & W Thoroughbred	5	144.8	144.8	165.4	1.48	40253

For Societe Generale Touche Remnant see Henderson

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Sovereign Unit Tst Mngrs Ltd (1000)F						
12 Christchurch Rd, Bournemouth 0202 298422						
Cash	1	49.74	49.74xd	50.24	5.3	41349
Cntrld Prfmnce	5½	55.91	56.19	59.83	7.9	40865
Ethical	5½	52.42	52.33	55.73	3.9	40864
European Growth	5½	57.44	57.78xd	61.64	3.0	40171
Income	5½	51.69	52.13xd	55.60	5.7	41354
Intl Growth	5½	79.03	79.80xd	84.90	3.0	41355
Managed	5½	69.48	70.18	74.65	3.7	41356
UK Growth	5½	55.02	56.54	60.30	4.5	41357
Standard Life Tst Mgmt Ltd (0730)H						
3 George St, Edinburgh EH2 2XZ 0800 393777						
Managed Acc	5¼	43.98	43.98	46.73	1.68	41059
UK Equity Gth Acc	5¼	58.64	59.09	63.43	1.51	41038
UK Eq High Inc Inc	5¼	34.93	34.93	37.12	3.86	41140
UK Eq High Inc Acc	5¼	41.48	41.48	44.06	3.85	40882
UK Equity Gen Acc	5¼	53.77	54.77	58.20	2.28	41140
UK Equity Gen Inc	5¼	40.67	41.43	44.02	2.28	41142
UK Larger Cos Acc F	7½	366.8	371.7	403.3	3.61	41443
UK Larger Cos Inc F	7½	281.7	285.5	300.4	3.61	41404
Gilt & Fxd Int Inc	5¼	29.93	30.01	31.74	6.86	41145
O'seas Lrg Cos Acc F	7½	275.1	279.9	303.7	1.45	41446
Nth American Acc	5¼	41.95	42.22	44.66	0.78	41147
Far East Acc	5¼	58.67	58.67	60.22	0.10	41148
European Acc	5¼	41.08	41.08	43.65	1.28	41149
State Street Unit Trust Mngmt Ltd (1400)F						
20 Birchin Lane, London EC3V 9AD 071-623 1599						

INSURANCES

OTHER UK UNIT TRUSTS

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Provident Life Assoc Ltd
Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	Yield Gross	City-Line
Gold Range (Pensions)				
Discretionary Fund		157.3	-	48412

Provident Mutual Life Assc. Assn.
6 Hills Way Stevenage Herts SG1 2ST 0438 732000

	Bid Price	Offer Price	Yield Gross	City-Line
Managed Ord	416.3	438.2	-	43484
Managed Init	294.8	310.1	-	43485
Equity Ord	622.2	654.9	-	43486
Equity Init	440.3	463.5	-	43487
Index Linked Gilt Ord	193.9	204.1	-	43488
Index Linked Gilt Init	149.3	160.6	-	43489
Overseas Equity Ord	335.7	353.4	-	43490
Overseas Equity Init	237.5	250.0	-	43491
Property Ord	227.1	239.1	-	43492
Property Init	180.7	189.2	-	43493
Fixed Interest Ord	259.3	272.9	-	43494
Fixed Interest Init	183.5	193.2	-	43495
Deposit Ord	198.6	208.8	-	43496
Deposit Init	139.1	146.4	-	43497
Pension Funds				
Managed Ord	549.1	578.0	-	43498
Managed Init	388.6	409.1	-	43499
Equity Ord	847.8	892.4	-	43500
Equity Init	599.9	631.5	-	43501
Pen Ind Lkd Gilt Ord	220.7	232.3	-	43502
Pen Ind Lkd Gilt Init	163.1	171.7	-	43503
Overseas Equity Ord	390.0	410.5	-	43504
Overseas Equity Init	276.0	290.5	-	43505
Property Ord	289.9	305.2	-	43506
Property Init	205.2	216.0	-	43507
Fixed Interest Ord	337.2	354.9	-	43508
Fixed Interest Init	238.6	251.2	-	43509
Deposit Ord	287.5	302.7	-	43510
Deposit Init	203.5	214.2	-	43511

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 071-405 9222

	Bid Price	Offer Price	Yield Gross	City-Line
Prufund				
Managed June 2	301.7	314.3	-	43512

Prudential Corporate Pension Funds
1 Stephen St, London W1P 2AP 0734 494652

	Bid Price	Offer Price	Yield Gross	City-Line
Prudential Managed Funds				
Discretionary Jan 9	229.81	237.15	-	43530

Scottish Amicable
150 St Vincent St, Glasgow 041-248 2323

	Bid Price	Offer Price	Yield Gross	City-Line
Life Funds (First Series)				
Managed	408.8	429.3	-	43861
Equity	506.7	536.5	-	43856
Property	239.4	252.0	-	43858
International	403.0	424.3	-	43857
Japanese	118.5	124.8	-	46267
Asia Pacific	141.7	149.2	-	46264
European	108.7	114.5	-	46268
American	139.7	147.1	-	46263
Fixed Interest	335.8	353.3	-	43856
Index-Linked Gilt	185.5	195.3	-	43860
Cash	220.0	231.6	-	43859
Life Funds (Second Series)				
Managed	113.2	119.2	-	47103
Equity	109.4	115.2	-	47087
Property	100.6	105.9	-	47107
International	124.6	131.2	-	47101
Japanese	119.8	126.1	-	47102
Asia Pacific	139.0	146.4	-	47050
European	107.8	113.5	-	47078
American	136.6	143.8	-	47080
Fixed Interest	126.2	132.9	-	47091
Index-Linked Gilt	118.6	124.9	-	47100
Cash	109.1	114.9	-	47081
Pension Funds				
Building Society	173.3	182.5	-	43874
Managed (Init)	236.3	248.6	-	43872
Managed (Acc)	468.0	492.7	-	43873
Equity (Init)	265.6	279.6	-	43862
Equity (Acc)	536.3	564.1	-	43863
Property (Init)	142.6	150.1	-	43868
Property (Acc)	282.4	297.3	-	43869
International (Init)	239.9	252.5	-	43866
International (Acc)	475.1	500.2	-	43867
Fixed Interest (Init)	225.3	237.2	-	43864
Fixed Interest (Acc)	446.2	469.7	-	43865
Cash (Init)	154.0	162.2	-	43870
Cash (Acc)	305.1	321.2	-	43871
Others				
Capital Guarantee Bond	99.5	104.8	-	44339

Scottish Equitable Life Assce. Soc.
28 St Andrew Sq, Edinburgh 031-556 9101

	Bid Price	Offer Price	Yield Gross	City-Line
Mixed	226.2	238.1	-	43875

Sun Alliance Group - Contd.

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co
Victory Hse, Prospect Hill, Douglas, IoM 0624 677877

Royal Skandia Life Assurance Ltd - Contd.

Equitable International Fund Managers Ltd

Merrill Lynch Guernsey

J. Rothschild International Assce plc

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

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	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Prudential Fund Managers (Jersey) Ltd						
PO Box 103, St Helier, Jersey 0534 70009						
Prudential Currency Fd (formerly Vanbrugh Currency Fd)						
Income (A & B)	5	209.4	209.4d	219.9	3.33	45644
Growth (C & D)	5	315.4	315.4	331.3	5	44595
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428, St Helier, Jersey 0534 27441						
Govt Secs Fd	4	55.40	55.40xd	57.58	8.67	45734
Standard Bank Fund Mngmt (Jersey) Ltd						
PO Box 583, St Helier, Jersey CI 0534 67557						
International Bond	5	$-	18.00	18.94	4.55	44288
Sterling Bond	5	£-	9.730xd	10.07	6.55	44786
Sterling Cap		£-	42.49	42.50	5.41	44787
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 503002						
TSB Offshore Investment Fund Ltd						
Stg Deposit Class	3	102.25	102.25	105.32	5.00	45657
Gilt & Fixed Interest	3	117.84	117.84	122.17	7.58	43468
Blue Chip & Gilt Edged	5	80.69	80.69	83.89	3.57	43458
International Bond	5	134.89	134.89	141.85	5.01	43462
UK Equity	5	264.95	263.07	278.82	1.25	43457
International Equity	5	177.83	180.27	189.75	0.36	43460
Far Eastern	5	167.02	170.06	179.01	0.00	43461
European	5	125.36	125.99	132.62	0.00	43459
Pan American	5	338.41	342.17	360.18	0.00	44570
TSB Gilt Fund Ltd						
Quarterly Share	3	108.09	108.09	109.94	7.67	45901
Monthly Share	3	103.99	103.99d	107.38	7.82	45884

JERSEY (REGULATED)(**)

	Bid Price	Offer Price	Yield Gross	City-Line
Barclays Intl Funds				
Asian Selection Funds				
China	$8.928	9.398	0.0	-
Hong Kong	$31.277	32.923	0.4	44544
Indonesia	$10.349	10.894	0.0	44698
Korea	$11.958	12.585	0.0	44697
Malaysia	$19.830	20.863	0.0	44696
Philippines	$16.919	17.810	0.0	44699
Singapore	$13.393	14.098	0.0	44700
Thailand	$19.833	20.877	0.0	44717
South East Asia	$26.009	27.378	0.0	44716
US Dollar Liquidity	$9.563	10.041	0.0	44676
Cater Allen Investment Management (CI)				

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Banque Scandinave a Luxembourg SA						
16 Boulevard Royal, L-2449, Luxembourg						
Scandifonds						
Scandifond Equity Fund						
Equity Int. Acc.	5	$-	16.37	17.2	3.17	45708
Equity Global	5	$-	1.47	1.55	-	45682
Equity Natural Res.	5	$-	1.08	1.15	-	45693
Equity Japan Acc	5	Y-	115.94	120.9	-	45697
Equity UK	5	£-	1.37	1.45	-	45694
Equity Nordic	5	$-	1.28	1.35	-	45691
Equity North America	5	$-	1.93	2.03	-	45707
Equity Mediterranean	5	$-	0.89	0.93	-	45705
Equity Cont Europe	5	$-	1.45	1.53	-	45705
Scandifond Far East						
Far East Global	5	$-	3.58	3.77	-	45681
Scandifond Bond Fund						
Bond Int. Acc	1	$-	12.22	12.35	6.84	45688
Europe Bond Acc	1	$-	1.57	1.6	7.15	45648
Bond DEM Acc	1	DM-	1.21	1.24	6.84	45685
Bond USD Acc	1	$-	1.39	1.42	6.79	45754
Bond Sweden Acc	1	SKr-	16.38	16.83	10.19	45698
Scandifond International Slcav						
Intl Emerging Markets	5	$-	1.06	1.12	-	-
Barclays Diversified Portfolio						
14 rue Aldringen L-1118 352 4799 2939						
IPB Deutschmark Reserve		DM-	31.38	-	-	-
IPB Sterling Reserve		£-	10.28	-	-	-
IPB Swiss Franc Reserve		SFr-	30.53	-	-	-
IPB US Dollar Reserve		$-	20.23	-	-	-
IPB European Bond		Ecu-	17.37	-	-	-
IPB North American Bond		$-	21.08	-	-	-
IPB Espania		Pta-	2760	-	-	-
IPB Europe		Ecu-	17.73	-	-	-
IPB Japan		$-	28.71	-	-	-
IPB Pacific Rim		$-	23.24	-	-	-
IPB United Kingdom		£-	11.04	-	-	-
IPB United States		$-	21.21	-	-	-
Barclays Inv Funds (Luxembourg)						
41 Avenue de la Gare L-1611 010 352 404344						
Equity Funds						
European Equity ‡	5¼	£-	0.908	0.968	0.3	44731
Intl Equity ‡	5¼	£-	1.438	1.530	0.5	44478
North Am Eqty ‡	5¼	$-	33.44	35.58	0.3	44733
Pacific Eq ‡	4¼	$-	6.613	7.031	0.6	44732
UK Equity ‡	5¼	£-	1.105	1.176	2.8	44730
Bond Fund						
International Bond ‡	3½	$-	96.31	102.79	6.5	44737
CMI Asset Management (Luxembourg) SA						
203 route d'Arlon, L-1150 Lux 010 352 458826						
CMI Managed Portfolio Investment Company (a)						
Safeguard Portfolio F		£-	1.252	1.333	-	44678
Growth Portfolio F		£-	1.128	1.201	-	44679

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Test for dollar

FOREIGN exchange dealers will focus this week on data which will test whether the US is experiencing inflation at the current stage of the recovery, *writes James Blitz.*

In recent weeks there has been a growing belief that inflation is set to rise in the US, a phenomenon which would force the Federal Reserve to raise short term interest rates.

UK clearing bank base lending rate 6 per cent from January 28, 1993

Last Friday, the May producer prices figure US showed that the rate of inflation was far smaller than had been anticipated, with the ex-food and energy figure up 0.2 per cent on the month.

But the market will wait for the consumer price inflation figure for May, due out tomorrow, before giving its final verdict on US interest rate moves. The Michigan consumer confidence survey for June, which is due on Friday, will also show whether the PPI figure was a blip.

After the onslaught that it has received in recent days, the near term outlook for the dollar against the yen will be affected by two sets of data this week.

Thursday brings the April trade balance for the US which is set to show another deficit. DKB International predicts that this will be in the order of $8.5bn, following a deficit of $10.2bn for March.

Even more important will be the Japanese trade balance for May. The yen rose strongly on the back of the April figure of $10.2bn, because the US is so keen to see Tokyo's trade surplus reduced. A strong surplus this time might have a similar effect, pushing the yen towards the Y100 level against the dollar.

In Germany, the week's key data will be the M3 money supply figure for May, which is expected to show a slight dip. But, the Bundesbank is unlikely to ease monetary policy at its council meeting on Thursday.

POUND SPOT - FORWARD AGAINST THE POUND

Jun 11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5210 - 1.5300	1.5250 - 1.5260	0.36-0.34cpm	2.75	1.02-0.98pm	2.64
Canada	[illegible]	[illegible]	0.27-0.19cpm	1.41	0.60-0.46pm	1.09
Netherlands	2.7700 - 2.8115	[illegible]	[illegible]	-1.35	[illegible]	-0.89
Belgium	50.85 - 51.55	[illegible]	3-7cdis	-1.18	12-18dis	-1.18
Denmark	9.4480 - 9.5780	[illegible]	[illegible]	-2.79	[illegible]	-2.43
Ireland	[illegible]	[illegible]	0.09-0.12cdis	-1.24	0.28-0.32dis	-1.18
Germany	[illegible]	[illegible]	[illegible]	-2.12	[illegible]	-1.72
Portugal	[illegible]	[illegible]	137-148cdis	-7.25	410-436dis	[illegible]
Spain	[illegible]	[illegible]	88-98cdis	-5.92	247-273dis	[illegible]
Italy	2255.75 - 2292.20	2255.75 - 2258.75	7-9liredis	-4.25	24-27dis	-4.52
Norway	[illegible]	[illegible]	[illegible]	-1.07	[illegible]	-0.98
France	8.3175 - 8.4280	8.3175 - 8.3275	[illegible]	-1.62	[illegible]	-1.47
Sweden	[illegible]	[illegible]	[illegible]	-2.32	[illegible]	-2.09
Japan	161.25 - 163.40	[illegible]	[illegible]	3.25	[illegible]	2.63
Austria	17.37 - 17.60	17.41 - 17.44	[illegible]	-1.21	[illegible]	-1.00
Switzerland	[illegible]	[illegible]	[illegible]	0.34	[illegible]	0.79
Ecu	[illegible]	1.2865 - 1.2875	0.18-0.23cdis	[illegible]	0.46-0.52dis	-1.55

Commercial rates taken towards the end of London trading. [illegible] 3.05-2.95pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jun 11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	[illegible]	[illegible]	0.36-0.34cpm	2.75	1.02-0.98pm	2.64
Ireland†	[illegible]	[illegible]	0.50-0.47cpm	3.87	1.42-1.37pm	3.71
Canada	[illegible]	[illegible]	0.13-0.15cdis	-1.38	[illegible]	-1.66

£ IN NEW YORK

STERLING INDEX

CURRENCY MOVEMENTS

OTHER CURRENCIES

CURRENCY RATES

CHICAGO

PHILADELPHIA SE £/$ OPTIONS

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

BASE LENDING RATES

	%
Adam & Company	6
Allied Trust Bank	6
AIB Bank	6
●Henry Ansbacher	6
B & C Merchant Bank	13
Bank of Baroda	6
Banco Bilbao Vizcaya	6
Bank of Cyprus	6
Bank of Ireland	6
Bank of India	6
Bank of Scotland	6
Barclays Bank	6
Brit Bk of Mid East	6
●Brown Shipley	6
CL Bank Nederland	6
Citibank NA	6
City Merchants Bank	6
Clydesdale Bank	6
The Co-operative Bank	6
Coutts & Co	6
Credit Lyonnais	6
Cyprus Popular Bank	6
Duncan Lawrie	6
Equatorial Bank plc	6
Exeter Bank Limited	7
Financial & Gen Bank	7
●Robert Fleming & Co	6
Girobank	6
●Guinness Mahon	6
Habib Bank AG Zurich	6
●Hambros Bank	6
Heritable & Gen Inv Bk.	6
●Hill Samuel	6
C. Hoare & Co	6
Hongkong & Shanghai	6
Julian Hodge Bank	6
●Leopold Joseph & Sons	6
Lloyds Bank	6
Meghraj Bank Ltd	6
McDonnell Douglas Bk.	6
Midland Bank	6
Mount Banking	6
NatWestminster	6
Nykredit Mortgage Bnk	6.5
●Rea Brothers	6
Roxburghe Bank Ltd	6
Royal Bk of Scotland	6
●Smith & Williamson Secs	6
Standard Chartered	6
TSB	6
Unibank plc	6
●United Bk of Kuwait	6
Unity Trust Bank Plc	6
Western Trust	6
Whiteaway Laidlaw	6
Wimbledon & Sth West	7
Yorkshire Bank	6

● Members of British Merchant Banking & Securities Houses Association

STOCK INDICES

	June 11	June 10	June 9	June 8	June 7	June 4	1993 High	1993 Low	Since Compilation High	Since Compilation Low
FT-SE 100	2861.8	2850.0	2868.9	2844.4	2844.8	2828.9	2957.3	2737.6	2957.3	986.9
FT-SE Mid 250	3202.9	3207.7	3213.4	3199.1	3184.9	3175.1	3213.4	2876.3	3213.4	1379.4
FT-SE-A 350	1428.6	1428.4	1431.6	1421.4	1420.2	1413.6	1457.1	1348.7	1457.1	664.5
FT-A All-Share	1414.77	1414.64	1417.63	1407.88	1406.70	1400.30	1438.22	1080.13	1438.22	61.92
FT-SE Eurotrack 100	1181.85	1181.45	1181.59	1168.70	1167.78	1159.95	1181.85	1003.02	1200.27	900.45
FT-SE Eurotrack 200	1232.37	1230.25	1230.01	1218.06	1219.68	1214.21	1234.50	1144.79	1246.79	938.82
FT Ordinary	2244.0	2238.5	2240.5	2224.5	2224.2	2213.1	2299.5	2124.7	2299.5	49.4
FT Government Secs.	95.37	95.36	95.32	95.02	94.99	95.16	98.04	93.28	127.40	49.18
FT Fixed Interest	111.85	111.81	110.99	110.94	111.13	111.71	113.03	106.67	113.88	50.53
FT Gold Mines	179.6	179.6	175.9	184.3	189.1	189.2	202.7	80.0	734.7	43.5

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS - Cont.

OTHER FIXED INTEREST

Continued on next page

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	W'k% ch'nge	Div gross	Dividends paid	Last xd	City line
Abbott Labs		17¼xd	-2.1	68c	FeMyAuNv	13.4	1503
Allegheny & W.	♥	588p	-4.5	30c		–	–
Amdahl		368p	1.9	5c	NvFeJeAu	31.1	–
Amer Cyanamid		34½		$1.89	MrJeSeDe	4.3	–
Amer Express		19¼xd	3.0	$1.00	FeMyAuNv	30.3	1594
Amer T & T		40⅞xd	1.3	$1.32	FeMyAuNv	29.12	1597
Ameritech		49½	3.1	$3.68	FeMyAuNv	28.3	–
BankAmerica		27¼xd	-1.8	$1.40	MrJeSeDe	18.5	1744
Bankers NY		45⅛xd	-3.7	$3.12	ApJyOcJa	24.12	1745
Bell Atlantic		36⅞	2.4	$2.68	FeMyAuNv	4.7	–
BellSouth		34¾	-1.5	$2.76	FeMyAuNv	5.4	–
Bethlehem Steel	♥	12¼xd	-.5	–	MrJeSeDe	8.2	1821
Bowater		1293pxd	-11.4	60c	OcJaApJy	8.3	1884
CPC		29⅝xd	-2.3	$1.28	JaApJyOc	26.3	2263
Cadiz Land Inc	♥	171p	43.7	–	†	–	–
California Engy		1358p		–		–	–
Chase Manhattan		19¼xd	-1.0	$1.20	FeMyAuNv	27.4	2109
Chrysler		29¼xd		60c	ApJyOcJa	18.3	2135
Citicorp		17⅞xd	-2.1	–	–	23.10	2141
Colgate-Palm		35⅛xd	-4.1	$1.24	FeMyAuNv	22.7	2184
Cont'l Bank		1497p	-3.4	60c	DeMrJeSe	31.5	–
Dana		34⅝xd	1.4	$1.60	MrJeSeDe	28.5	2305
Data General		848p	-10.5	–	–	–	–
Decora Inds	♥	131p		–	†	–	–
Dun & Brad		37⅝	-3.8	$2.44	MrJeSeDe	13.2	–
Eaton		59½	0.6	$2.20	FeMyAuNv	2.2	2410
Ecolab		17⅛xd	-1.1	70c	JaApJyOc	5.4	3046
FPL		24¼xd	0.3	$2.48	MrJeSeDe	25.5	–
Ford Motor		35⅞xd	0.3	$1.60	MrJeSeDe	27.4	2615
Gen Elect		61¼xd	0.5	$2.52	JaApJyOc	3.6	2675
General Host	♥	585p	-4.2	34c	†	13.12	–
Gillette		32⅞xd		84c	MrJeSeDe	28.4	2895
Hasbro		20⅞		24c	FeApJyNv	1.8	–
Honeywell		23¼xd	-.9	89c	MrJeSeDe	26.5	2918
Houston Inds		29⅞	-1.3	$3.00	MrJeSeDe	18.11	–
Ingersoll-Rand		22¼xd	-.8	70c	MrJeSeDe	14.5	2979
Lockheed		40½	-1.5	$2.12	MrJeSeDe	15.2	–
Lowe's	h	2387p	-2.2	28c	JaApJyOc	11.7	–
Merrill Lynch		47¼xd	-3.5	$1.20	FeMyAuNv	30.4	3351
Morgan (JP)		42¼xd	-.9	$2.40	JaApJyOc	17.3	3418
Morris (Philip)		31⅞xd	-1.6	$2.60	JaApJyOc	10.6	5161
NYNEX		57¼	2.2	$4.64	FeMyAuNv	27.5	4740
Pall		11⅝xd	-1.1	32c	FeMyAuNv	24.1	–
Pennzoil		42¼xd	0.1	$3.00	MrJeSeDe	25.6	3630
Quaker Oats		47¼xd	2.3	$1.92	JyOcJaAp	18.3	3738
Rockwell		21⅝xd	2.4	$1.00	MrJeSeDe	12.5	3847
Rep NY		31¼xd	-3.6	$1.08	JaApJySe	10.6	3814
Sears, Roebuck		34¼xd	-2.8	$1.60	JaApJyOc	25.5	5191
Sthwestern Bell	h	25¼	-.5	$1.51	MyAuNvFe	4.7	–
Sun Co		16⅛xd	-.8	$1.80	MrJeSeDe	5.5	4135
Tenneco		30¼xd	-4.2	$1.60	MrJeSeDe	20.5	–
Texaco		42¼xd	1.2	$3.20	MrJeSeDe	4.5	4200
Time Warner	h	24¼xd	-.3	28c	MrJeSeDe	27.5	4234
Unifao	♥	416p	0.2	–	†	–	–
US West		28¼	0.4	$2.14	FeMyAuNv	14.4	–
Vanty		2144p	-3.9	–	–	11.77	–
WMX Technologies		22¼xd	-2.7	60c	ApJyOcJa	11.6	4438
Whirlpool		3502pxd	-3.6	$1.22	MrJeSeDe	4.3	–
Woolworth	♥	18½	-3.3	$1.12	MrJeSeDe	28.1	4540

CANADIANS

	Notes	Price £	W'k% ch'nge	Div gross	Dividends paid	Last xd	City line
Alber Energy	♥	2p		–	–	–	–
Amer Barrick		1443p	-2.6	16c	Jan Dec	–	–
Bk Montreal	h	12⅞	-3.7	$1.12	FeMyAuNv	2.8	1029
Bk Nova Scot		1232p	-3.4	$1.12	JaApJeOc	30.8	1017
BC Gas	♥	741p	-2.4	60c	FeMyAuNv	30.12	–
BCE		23	-1.1	$2.64	ApJyOcJa	12.6	–
Bracan	♥	894p	2.9	$1.08	JaApJyOc	26.10	–
Brvalwater	♥	11½p	-8.0	10c	–	–	–
Can Imp Bk		1871p	1.2	$1.32	JaApAuNv	28.8	1037
Can Pacific		1047p	-1.7	32c	JaApJyOc	28.12	–

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	Wk % ch'nge	Div net	Dividends paid	Mkt cap£m	Last xd	City line
Scottish Inv	♣†☐	199½xd	1.5	4.82	Feb Jul	505.0	7.6	3953
Warrants	☐	46	1.1	–	–	23.4	–	5803
Scot Mortgage	♣☐	192	1.0	4.0	Jul Dec	696.2	24.5	5004
Scot National Inc	♣☐	63½	–.8	7.5	ApJyOcJa	133.3	24.5	3961
Cap	☐	25	–	–	–	18.9	–	3969
Stepped Pf		162	0.3	6.06	Sep Mar	48.5	15.2	3962
Zero Div Pf		238	–	–	–	134.1	–	3964
Warrants		3½	–	–	–	0.45	–	3968
Scot Value	†s☐	82	1.9	1.6	Jan Jul	39.3	24.5	2708
Sec Alliance	♣†	1455	0.8	38.5	Apr Oct	279.4	1.3	3974
Second Consld	☐	140	3.7	–	–	47.9	–	1078
Second Market	♣s	331	3.4	2.8	May	32.8	19.4	3976
Sec Tst Scot	♣☐	83½	1.2	3.28	Jul Dec	387.5	10.5	3977
Select Assets	☐	128	4.1	1.2	Apr	38.4	1.3	5086
Eq Ind Sert		132	–	4.25	JaApJlOc	23.3	8.4	4803
Eq Ind Ser II		132	–	4.25	JaApJlOc	28.0	8.4	5085
SHIRESCOT	♣H	130	2.4	5.25	DeMrJeSe	18.5	24.5	1335
Shires	♣M	257xd	1.2	16.8	ApJyOcJa	65.2	7.6	4014
11pc Cv Ln '03/04		2127½	–	Q11%	Sep Mar	837.7	1.3	4012
Siam Select		128	–	0.35	Sep	19.2	24.8	1387
Warrants		34	–2.9	–	–	1.02	–	1378
Smaller Cos	☐	123xd	0.8	2.6	Apr Oct	18.5	7.6	3986
Warrants		38	5.6	–	–	1.14	25.5	3989
Sphere Inc	☐	21½	–	3.1	MyAuNvFe	28.1	19.4	4276
Zero Div Pf		87¼	–	–	–	82.8	–	5227
Sumit		61	1.7	1.4	May	4.37	15.3	4132
TR City of Lon	☐	137¼	1.5	4.76	FeMyAuNv	282.4	19.4	4271
TR Euro Growth	♣☐	104	1.0	1.35	Oct	37.8	7.9	4980
Ptg Sub		[illegible]	[illegible]	1.35	Oct	[illegible]	[illegible]	[illegible]

INVESTMENT COMPANIES

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
Greenwich Res	♣☐	17¼	–11.5	–	–	–	–	2773
Hamio Gold C$		59½	–0.3	Q20c	–	Dec Jun	8.11	–
Ivernia West I£	‡†☐	47	–7.8	–	–	–	–	–
Kalis Mining I£	†‡	12	–	–	–	–	–	3741
Kenmare	♣☐	19	–7.0	–	–	–	–	1453
Malinga Res.		14½	–	–	–	–	–	–
Navan Res I£	♣	63	16.7	–	–	–	–	1185
5pc Ln Notes		62	14.8	–	–	–	–	–
Oryx Gold		74	18.4	–	–	–	–	3886
††Ovoca Res I£		3½	–	–	–	–	–	1470
RTZ	♣M☐	658xd	2.5	19.5	1.3	Dec Aug	7.6	3880
Viscaya	♣	6¼f	–	–	–	–	–	4193

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- ☐ *Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).*
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◊ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. x Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. E Auction basis. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

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4 pm close June 11

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅝	11½	AAR Corp	0.48	3.6	25	50	13½	13⅜	13½	
29⅜	20	A L Labs A	0.18	0.7	46	311	27⅝	26¾	26¾	-¾
63½	54⅝	AMP Inc	1.60	2.6	22	3530	62¾	62½	62½	+½
72¾	55½	AMR			10	5848	69⅜	67	69⅝	+2⅝
2¼	1¾	ARX			12	23	2	2	2	
61½	29⅞	ASA	2.00	4.6	28	2705	46⅞	43¾	43¾	-3⅛
30¾	22⅝	Abbott Lab	0.68	2.6	16	9250	26⅛	25⅞	26	-⅛
12⅜	10¼	Abitibi Pr	0.50	4.4	4	2	11¼	11¼	11¼	-⅛
11¾	10¾	ACM Gvt In	0.96	8.2		237	u11¾	11⅝	11¾	
10	9⅛	ACM GvOpp	0.80	8.1		48	9⅞	9¾	9⅞	+⅛
9⅝	8¾	ACM Gvt Sp	0.80	8.3		313	u9⅝	9½	9⅝	+⅛
11⅛	10½	ACM Gvt Ss	0.96	8.7		1176	11⅛	10⅞	11	
11	9⅝	ACM Man	1.08	10.2		452	10⅞	10⅝	10⅝	-¼
9⅜	6⅝	ACM Managd	0.72	8.0		165	9⅛	9	9	-⅛
11	7¾	Acme Cleve	0.40	4.0	13	338	10¼	10⅛	10⅛	-⅛
9¼	6½	Acme Elect			291	165	8⅞	8⅝	8¾	+⅛
16	10⅝	Acuson			14	792	13⅛	12⅝	13	+⅛
22¼	19⅝	Adams Expr	0.48	2.3	1	65	21⅛	21	21	-⅛
66	45½	Ad Micro	3.00	6.1		3226	50⅛	49	49	-1½
32¾	17⅝	Ad Micro P	3.00	14.1		939906	22⅜	21	21¼	-⅞
7¾	5½	Advest Grp	0.16	2.7	10	z100	6	6	6	
24¾	20	Advo Inc	0.08	0.3	22	196	21⅛	20⅞	21	+¼
49⅜	41⅛	Aegon ADR	2.95	6.3	9	69	46¾	46	46¾	+⅝
55⅞	43⅝	Aetna Lf	2.76	5.1	137	1595	54	53¼	53¾	+⅝
14½	11½	Ahlb A	0.28	1.9	31	17768	13⅞	13½	13⅝	+⅛
[illegible]										

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4 pm close June 11

NYSE COMPOSITE PRICES

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close

Continued from previous page

- S -

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
22	15½	S Anita Rt	1.36	7.7	17	111	17⅞	17¾	17¾	-⅛
20¾	16½	SCOR US Cp	0.32	2.0	203	13	16½	d16¼	16¼	-¼
28	20	SPS Techno	1.28	4.6	19	64	28⅜	28½	28½	-⅜
14½	12⅞	Sabine Rit	1.04	8.0	9	235	13½	13	13	-½
13⅝	6⅞	Safecard	0.20	1.5	13	1051	u13⅝	13⅜	13½	
23½	16⅞	Safeg'd Sc			8	17	17½	17¼	17¼	-½
24¾	16¼	SafetyKln	0.36	2.0	24	937	18	17½	17⅝	-¼
18½	10⅞	Safeway			23	828	15¼	14⅞	14⅞	-⅜
3⅝	2	SafewayWGS				380	3⅛	3⅛	3⅛	-⅛
44½	37½	StJoePaper	0.20	0.5	92	5	38⅞	38⅝	38¾	
37¾	31	StJosL&P	1.76	4.8	14	15	36½	36	36½	+¼
83¼	75	St Paul's	2.80	3.5	12	698	79¼	79	79¼	+¼
9⅝	7⅞	Salant Crp			5	20	8¾	8½	8¾	+¼
75¼	42½	Sallie Mae	1.20	2.8	9	16145	45¾	43⅞	43½	-3¼
13⅞	13	Salomon Br	0.36	2.7		426	13⅞	13¼	13⅝	+⅛
41⅞	34	Salomonlnc	0.64	1.8	16	865	36⅞	36¼	36½	+¼
28⅞	23¼	SanDgo G&E	1.48	5.8	14	304	25⅝	25⅛	25⅝	-¼
4⅜	3½	SantaFeEDu	0.40	10.3	193	87	4	3⅞	3⅞	
11⅞	9⅛	SantaFeERs	0.16	1.6	105	1857	10⅞	10⅛	10¼	-½
40¾	35¾	SantaFePac	2.80	7.4	13	343	38⅛	37⅞	37⅞	-¼
18	12¾	SantaFeSth	0.10	0.6	18	1350	16½	16¼	16¼	+⅛
31⅛	23⅞	Sara Lee	0.58	2.3	18	3902	25¼	24⅞	25⅛	+⅜
47	40⅛	Scana Corp x	2.74	5.8	15	406	u47⅛	46¾	47	+⅜
49⅝	43	Scecorp	2.80	5.8	14	1005	48⅝	48⅜	48⅝	+⅛
38⅞	23⅞	ScherePR			24	251	28½	28	28	-⅜
69⅞	51¾	SchoringPl	1.80	2.6	18	6589	69⅛	68⅜	69⅛	+1⅜
69⅞	55⅞	Schl'berger	1.20	1.9	24	9026	67¼	64¾	64⅞	-2⅜
26	16½	Schwab(C)	0.20	0.8	16	1096	24½	24	24½	+⅜
7¼	5⅝	Schwitzer			29	55	6¾	6½	6¾	+⅛
35	17¾	ScientAtln	0.12	0.4	62	907	33¼	32⅝	33	+¼
13¼	9⅛	Scotsman	0.10	0.8	13	113	12⅜	12¼	12⅜	+⅛
41	32¾	ScottPaper	0.80	2.3	17	1041	34½	33¾	34⅛	+1
20⅞	14¼	ScuddrNAsF	0.21	1.0		44	20⅝	20⅜	20½	-¼
9¾	7½	ScuddrNEuF	0.16	1.7		147	9⅜	9¼	9⅜	+⅛
31½	18	SeaContB	0.70	2.3	9	83	31¼	30⅜	30⅜	-⅜
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AMEX COMPOSITE PRICES

4 pm close June 11

[illegible]

NASDAQ NATIONAL MARKET

4 pm close June 11

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MONDAY INTERVIEW

Apostle of low inflation

Donald Brash, governor of the Reserve Bank of New Zealand, speaks to **Kevin Brown**

Mr Donald Brash, governor of the Reserve Bank of New Zealand, is rare among central bankers: he has also been an active politician. He might have been appointed finance minister in the present conservative government had he not been deprived of a safe parliamentary seat by a by-election protest vote 12 years ago.

Yet it is hard to see how he could have had more impact on New Zealand from the Beehive, the government building, than he now has from the governor's office across the road.

In four and a half years as governor, he has presided over a fall in the rate of inflation from 9 per cent to 1 per cent. More important, the consensus among economists is that price stability can be maintained, extraneous shocks aside.

Government ministers, from the present prime minister down, praise Mr Brash's skills highly in private, and even Mr Mike Moore, the Labour opposition leader, says he has great admiration for Mr Brash's handling of monetary policy.

Interviewed in his spartan office, Mr Brash is keen to talk about New Zealand's victory over inflation, but modest about his own role.

Softly spoken and reticent, he is flattered by overseas interest, if a little surprised at the form some of the praise has taken. With a laugh, he refuses to comment on the suggestion by Samuel Brittan of the FT that he should have been appointed governor of the Bank of England.

Mr Brash does not claim sole credit for transforming New Zealand's inflation prospects. Radical labour market deregulation and fiscal prudence by the conservative National party government have helped to reduce inflationary pressures.

He is also becoming something of an apostle for New Zealand's innovative Reserve Bank Act, passed with cross-party support by the former Labour government in 1990, which put ultimate responsibility for fighting inflation in the governor's lap.

Mr Brash will be evangelising on the benefits of central bank independence in London this Thursday in a speech to the European Policy Forum, the free-market think-tank.

He will resist the temptation to present the New Zealand model as a complete solution to the UK's inflation problems. But his elucidation of the act's "elegant constitutional structure" will add weight to those, such as the combative Mrs Ruth Richardson, New Zealand's finance minister, who believe it would transplant relatively easily to the UK.

The act marked a watershed for New Zealand, which had suffered double-digit inflation for most of the 20 years since 1970, with the exception of an artificial fall during a prices freeze in 1983-84.

Supporters claim the act achieves a compromise between the relative subservience of Threadneedle Street to the UK government and the independence of the US Federal Reserve and Germany's Bundesbank.

As with the Bundesbank, the Reserve Bank of New Zealand has total independence in the operation of monetary and exchange rate policy, subject to the provision that its sole objective is to achieve and maintain price stability.

But the act leaves the definition of price stability to the government, which sets a target range for inflation in the form of a personal contract with the governor, usually for a fixed five-year term.

The government can amend the contract, by fiat or by negotiation, but any change must be made formally and publicly, ensuring that monetary policy is always transparent. The government can also fire the governor if he fails to achieve the target but, contrary to popular belief, his salary is not directly linked to inflation performance.

The act has made Mr Brash a symbol of New Zealand's commitment to low inflation, and no one was surprised when Mrs Richardson announced nine months early that he would be reappointed for five years from this September. His contract will require inflation to be maintained at 0-2 per cent – effectively a continuation of the existing contract, which required him to reduce inflation to 0-2 per cent between 1990 and September 1993.

The government's role in choosing the governor means the bank is only as independent as its leader. It would be possible, concedes Mr Brash, for a government to relax its anti-inflationary stance, for example, by appointing a compliant governor or by pressing an incumbent hoping for reappointment to accept a renegotiation of the target.

The Reserve Bank Act 'is a very useful bulwark'

But he argues that the openness of the system, combined with the disciplines imposed by the financial markets, make it unlikely that any government would take the risk. "It is obviously important to have someone in the post who strongly believes in price stability, but the framework does make it more difficult to derive the essentially short-term benefits of pushing inflation up.

PERSONAL FILE

- **1940** Born, Wanganui. Educated Canterbury University, NZ; PhD, Australian National University.
- **1967** World Bank, Washington.
- **1971** Chief executive, Broadbank.
- **1981** National party parliamentary candidate.
- **1982** Chief executive, NZ Kiwifruit Authority.
- **1986** Chief executive, Trust Bank.
- **1988** Governor, Reserve Bank.

"The incentives for a government to do that are not great because they have to make their intentions clear. An instantaneous bond market reaction would follow any loosening of the target by an injudicious amendment of the contract; governments know that."

But these are hypothetical problems. In practice, the most frequent complaint against Mr Brash is that he has pursued low inflation with excessive zeal, at high social cost. Mr Ken Douglas, president of the Council of Trade Unions and a critic of the act, claims the central bank put the economy into shock by disinflating too rapidly, causing a loss of confidence and high unemployment: "We have been an international experiment for the mad scientists from the International Monetary Fund. No other economy has been as savagely restructured as ours."

Perhaps surprisingly, Mr Brash hints that the initial target may indeed have been too rigorous. It was "very narrow", and he admits it left little leeway for forecasting errors.

He also concedes that the bank made mistakes in manipulating the "crude steering device" of monetary policy, particularly during the trough of the New Zealand recession in 1991, when inflation fell faster than expected.

But he rejects the suggestion that the bank contributed to the depth or length of the recession, arguing that the long-term benefits of rapid disinflation greatly outweigh the short-term pain.

"New Zealand has incurred all sorts of costs through being late into the disinflation game, but one of the advantages was that we were able to learn lessons from what had been done elsewhere," he says.

"For example, in many of the countries where disinflation has been achieved, wage settlements have not been moderated, so that when the foot came off the monetary brake inflation took off again.

The bank's most significant achievement, he says, has been a change in inflationary expectations. "One of the most important things that has happened is that, regardless of whether people agree with the policy, they know that miserable bloke in the Reserve Bank is going to keep pursuing it."

Selling this message is becoming easier as New Zealand consolidates what appears to be a sustainable economic recovery. Growth in GDP reached 3 per cent in the 12 months to December, and is widely forecast to be 2.5 to 3 per cent for the next two years.

But Mr Brash chooses his words carefully when asked if the New Zealand model could deliver similar results in other countries. Mrs Richardson asserts that the act is part of New Zealand's "exportable economic policy technology". Mr Brash, however, says the act "nicely balances the understandable desire on the part of an elected government to have an involvement in the target-setting process with the universally agreed fact that independent central banks are able to deliver low inflation rates at lower costs than central banks which are subject to very close political direction.

"It is a very useful bulwark against any government which might wish to return to the bad old days of saying one thing to the public [about the need to control inflation] and at the same time trying to get mortgage rates down before an election. That is the sort of thing which used to happen in New Zealand, and cannot happen now."

The pension bomb ticks unnoticed

MICHAEL PROWSE on AMERICA

If President Bill Clinton were truly a "new democrat" he would launch a national debate about the future of the federal government's largest programme – social security (pensions and disabled). The point would not be to tamper with the benefits of existing retirees but to ask whether the promises made to current workers make sense or, indeed, can be honoured.

In just over a decade, the huge "baby boom" generation (people born between 1945 and 1965) will start retiring. Over time, this will put enormous pressure on the federal budget. On official estimates, the number of social security beneficiaries per 100 insured workers will shoot up from 31 today to about 50 in 2030 and, on pessimistic assumptions, to perhaps as many as 80 by 2070.

If US social security were an austere "safety net" scheme, the demographic pressures might be manageable. It is not. Broadly speaking, the US is in the position of Britain in the early 1980s before the Thatcher government savagely pruned the state earnings-related pension scheme (Serps). In contrast with the basic British pension, which rises in line with inflation, retiring Americans receive a generous federal pension based on their average lifetime earnings; once the pension payments begin they are indexed for inflation. This year, retiring single-earner couples will get federal pensions of up to $20,000.

So long as the ratio of pensioners to workers is stable, pension liabilities rise at roughly the same pace as average earnings. But, if the ratio of pensioners to workers shoots up, as it will when baby boomers retire, the system is threatened with insolvency. Social security taxes are currently about 12.6 per cent of payroll earnings. Federal actuaries reckon that pension payments will rise from 11.6 per cent of earnings today to about 16 per cent late in the 21st century. On more pessimistic, yet plausible, assumptions, the ratio could rise to 27 per cent.

If the far shakier trust fund covering medical benefits is included, the figures look much worse: total benefit payments rise to 31 per cent of payroll or a mind-boggling 52 per cent on pessimistic assumptions. In other words, on unchanged policies present social security promises could require anything from a 50 per cent increase to a near quadrupling of payroll taxes on the working population.

When Mr Clinton is grappling with so many more immediate problems, including healthcare reform, it may seem perverse to expect him to bother about long-term demographic trends. After reforms in 1983, social security is expected to generate surpluses for at least the next decade. But letting the 21st century take care of itself is highly irresponsible. The trouble with pensions is that you have to give plenty of warning. It is no use waiting until 2010 and then telling 65-year-old baby-boomers that the nation can no longer honour its commitments. If future pensions are to be scaled back, baby-boomers must be told today so as to have a chance of increasing their private savings.

There are two main steps that could be taken to reduce future pension liabilities. The link with earnings could be broken or greatly watered down. Payroll taxes would then rise much faster than pension benefits, compensating for the decline in the worker-pensioner ratio. The retirement age could also be increased beyond 67 to, say, 72 to reflect past and prospective improvements in life expectancy.

But, rather than simply watering down the present scheme, it would make sense to consider radical alternatives. The threat of higher taxes on future workers arises mainly from the difficulty within a public scheme of one generation funding its own pensions. The $50bn social security surplus generated last year was only notionally "invested" in US government securities. In reality it was spent just like any other government receipts. When the social security fund's claims fall due in 20-30 years, the Treasury can honour them only by raising taxes or increasing borrowing.

There will always be a strong case for a federal safety net pension, to keep the elderly out of poverty. But there is no economic reason why the federal government should be raising huge sums in payroll taxes (more than $400bn last year) to be recycled as earnings-related pensions. If Mr Clinton were bold, he would suggest instead that payroll taxes be sharply cut and individuals be required to invest the cash released in portable private pension schemes of their own choice. Baby-boomers' pensions would then depend on the performance of their equity portfolios, which in turn would depend on the economy's strength. Current workers would no longer face steadily rising payroll taxes.

The political advantages of replacing social security (for future retirees) with mandated contributions to private schemes would be legion. Mr Clinton could claim to have cut taxes sharply, increased personal responsibility, headed off the future insolvency of social security, given the financial services industry a boost and, in all probability, sharply increased the national savings rate. He would be the savviest new Democrat in town.

The depressing reality, of course, is that no American politician (Democrat nor Republican) has the courage even to begin such a debate. Social security is regarded as untouchable, whether or not the rules make sense.

Question mark over Nato

IAN DAVIDSON on EUROPE

The writing is on the wall. It says: "Too bad about Bosnia".

All doubt has disappeared. The west has now conclusively advertised its refusal to do anything effective about the tragic war in Bosnia. In a last, minimalist gesture, the United Nations voted 10 days ago to authorise the use of troops to defend Sarajevo and five other towns as "safe havens" for the Moslems. Last week, Nato foreign ministers duly endorsed the new UN policy. Only one thing was missing – any willingness to provide the minimum number of 5,000 extra troops needed to carry it out.

In preference, Nato governments agreed on a three-point strategy which signalled clearly that they have virtually written off this bloody conflict. First, Nato aircraft will patrol the skies. In theory, this is to protect UN troops in the safe havens but, in reality, air strikes cannot substitute for inadequate troops because they are as likely to kill civilians as Serb soldiers. Second, the US will make the cost-free gesture of sending a little company of 300 soldiers to Macedonia, where there is no fighting, as a symbolic deterrent to any wider ambitions by the Serbs. And third, Nato will hold a special summit meeting towards the end of the year to try to work out how to do better in future.

In plain English, Nato's three-point strategy can be summed up in three words: gesticulation, containment, obfuscation.

Each of these elements is understandable in its own terms. The trouble is that, cumulatively, they are deeply damaging for the west – never mind the terrible sufferings of the people of Bosnia. They are damaging to the political and moral authority of the west, damaging to relations between Europe and the US, and damaging to the credibility of Nato. This damage will not be put right by yet another summit.

The ostensible purpose of the meeting is to plan for Nato's future. The real purpose is to try to patch up the transatlantic rift exposed by the war in Bosnia. The Clinton administration will hope to impress the Europeans with the president's leadership and commitment to the alliance. But the war in Bosnia has demonstrated a profound divide in strategic interests between Europe and the US, and it will not be erased by any summit communiqué. From the US point of view, there may be very good reasons for not wanting to get involved in a small civil war on the southern fringe of Europe. But the US's critical mass is such that its refusal has hobbled the rest of the alliance.

Of course, it is unreasonable to lay all the blame on the US. From the beginning of the Yugoslav crisis, European governments repeatedly advertised their reluctance to use military force, thus renouncing the option of intimidating the warring parties. But US reluctance further undermined the military option for Europe.

As it is, France and Britain are by far the biggest contributors of troops to the UN humanitarian protection force in Bosnia. But a shift from humanitarian protection to the active use of military force would require a large increase in troop strengths, which could come only through the mobilisation of resources across the breadth of the alliance. Thus, the US refusal virtually amounted to a veto.

After this, there must now be a serious question mark over Nato's future. Nato has lost its original unifying *raison d'être* with the disintegration of the massive military threat from the Soviet Union, though it is possible that the political turmoil in Russia may again confront the west with a serious military threat. Meanwhile, all alliance governments, including the French, want to keep Nato going; at the Rome Summit of 1991, they drafted a new strategy for peace, based on dialogue and co-operation between east and west.

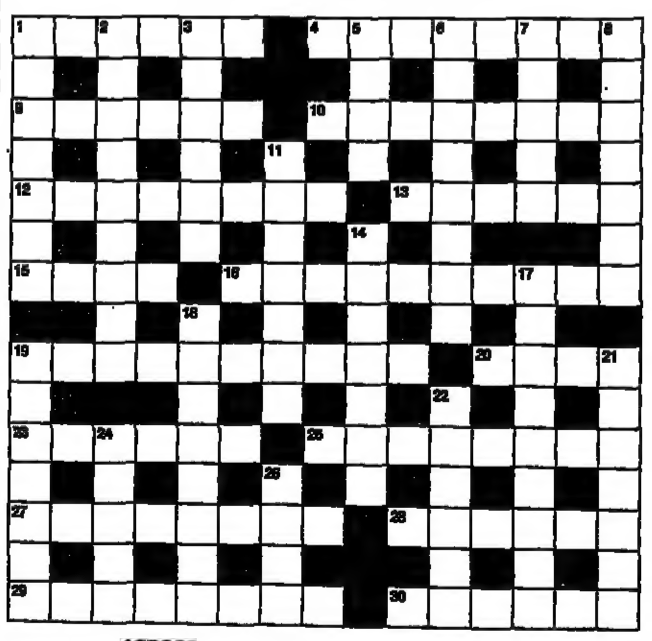
Unfortunately, they skirted round the central probability – that the most immediate threats to the stability and security of Europe would be likely to come from smaller and less predictable regional conflicts. The war in Bosnia is only one of several conflicts detonated by the break-up of the Soviet bloc. Others include the war in Georgia and that between Armenia and Azerbaijan. The new Nato strategy recommends "crisis management" and "conflict prevention"; but it does not say how these admirable functions would be carried out by an essentially military alliance like Nato. That uncertainty has been made more acute by the war in Bosnia, because it has revealed profound differences in strategic appreciation between Europe and America.

The Bosnian war, and the west's inability to stop it by force, provide the motivation behind the French proposal for a "pact for security and stability in Europe", put forward by Mr Edouard Balladur, the French prime minister. The French objective is to prevent a repetition of the Yugoslav tragedy, by some sort of collective management of potential conflicts over frontiers and ethnic minorities. Exactly how these conflicts are to be defused is far from clear. But the French seem to envisage some sort of diplomatic-security negotiation conducted by the European Community.

The first problem is that ethnic conflicts are liable to being driven by blind emotion. As in Bosnia, they may not be susceptible to rational negotiation by outsiders. The second problem is that the French scheme will need to be very ambitious if it is to measure up to the two most serious crises in the former Soviet Union: Russia's claim to a right to intervene in neighbouring states; and the potential for conflict in the tension between Russia and Ukraine over Ukrainian territory, Ukrainian nuclear weapons, and even Ukrainian independence.

CROSSWORD

No.8,175 Set by DANTE



ACROSS

1 An intriguing design? (6)
4 Wild cat's leap subdues (8)
9 Not related (6)
10 Rock opera first produced by a worker (8)
12 Worrying hobby? (8)
13 Soldiers give up and fall back (6)
15 Little creatures among those left standing (4)
16 Six hours' time to pay (7,3)
19 Give 50% rebate on ticket? (6,4)
20 Divine Egyptian currently in Oxford (4)
23 Putting spirit into a severe beating (6)
25 Stimulating prison group (8)
27 Shaken and upset (8)
28 They're not profitable for companies to make (6)
29 Score but two (8)
30 Wizard flier (6)

DOWN

1 Give another order to pack and shift position (7)
2 Native S. African provides a warming drink about ten (9)
3 One must support the law to some degree in this African state (6)
5 Rounds of drinks? (4)
6 Rounded up but not rounded off (8)
7 Cut of the cloth! (5)
8 Church gloomy about witchcraft (7)
11 Vessels among the waves perhaps (7)
14 Churchman about to put plate out (7)
17 Sad about girl losing her head, getting the sack (9)
18 Indisposed star can't perform (8)
19 Free delivery (7)
21 Nominally commits oneself to work? (5,2)
22 Go over undulating track (6)
24 Many fish act like limpets (5)
26 Present her with a key (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday June 26.